IMPACT OF THE PAYMENT-IN-KIND PROGRAM ON AGRICULTURAL SUPPORT INDUSTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARM

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

IMPACT OF THE PAYMENT-IN-KIND PROGRAM ON AGRICULTURAL SUPPORT INDUSTRIES

JUNE 9, 1983

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IMPACT OF THE PAYMENT-IN-KIND PROGRAM ON AGRICULTURAL SUPPORT INDUSTRIES

THURSDAY, JUNE 9, 1983

U.S. Senate,
Subcommittee on Small Business: Family Farm,
Committee on Small Business,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SR432, Russell Senate Office Building, Hon. Larry Pressler (chairman of the subcommittee) presiding.

Present: Senators Pressler, Nunn, and Baucus.

Staff present: John McNamara, professional staff member; Jill Edwards, legislative assistant to Senator Pressler; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA, AND CHAIRMAN, SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARM

Senator Pressler. I will call this meeting to order.

Thank you very much for being here. I would like to thank our witnesses, some of whom have traveled a great distance.

The payment-in-kind program is a phenomenon in the world. Never in the history of mankind has there been such a massive effort not to grow food. Our surpluses, our inventory, make that a necessity. I say that as a supporter of the PIK program. We had reached a point with our surpluses that we were either going to pay for storing them or use them somehow.

There are advantages to the PIK program including conservation of soil and water if we use the proper practices. However, we must supervise the program to be sure that it is being implemented correctly.

There is another issue over the payment-in-kind program, and that is what impact will it have on the overall U.S. economy; what impact will it have on Main Street businesses; what impact will it have on our small towns and cities and jobs in those areas? We do not know the answer to that yet.

I remember as a small boy talking to my father with fascination about the soil bank program in the fifties. When the soil bank program was first started, some feared that it would shut down all the small towns because there would not be as many sales of machinery, fertilizer, gasoline, and supplies. However, in fact, the American farmer produced even more during the soil bank program. It did not hurt the sales of farm supplies as had been anticipated, because the remaining acres were cultivated more intensely, fertilized more intensely, and produced more intensely.

Those are some of the issues we are facing. Today we are going to look at what impact the payment-in-kind program will have on small business; what impact it will have on jobs; what impact it will have on Main Street America.

I do have an opening statement, as do other Senators. There is a great level of interest in this subject. We very much appreciate that level of interest. I want to start off by saying that I have been a strong supporter of the PIK program since its inception. While I would prefer to help farmers by expanding our agricultural exports, I believed then, and I continued to believe, that the PIK program is vital to bring grain supplies in line with demand. A reduction in grain production and surpluses is needed if we are to return to a market-oriented grain marketing system and increased grain prices.

As we all know, increased farm prices are essential to a prosperous farm economy and prosperity for small businesses which supply farmers. My support for the PIK program, however, does not mean that there were not areas that perhaps could have been handled better. It is those areas that I hope to explore today.

If a PIK program is necessary again next year, it is my hope that the record of this hearing will provide the Department of Agriculture with a basis for some changes.

Last month I asked the small business people of South Dakota for their thoughts on the PIK program and how it affected their businesses. I was gratified by their overwhelming response, which included many ideas for addressing the problems they are facing. They, too, expressed near unanimous support for the PIK program. Our rural small businesses are well aware of the fact that the long-term solution to the problems they have faced in recent years is a strong agricultural economy. Without a strong agricultural economy, no amount of Government aid or assistance will help them survive.

However, in some cases they are very unhappy with what they perceive as a lack of concern by the Federal Government over the effects of a program with the scope of PIK on their businesses. They have suffered right along with farmers during the last few difficult years. Yet, they feel that their problems have not generated the same type of concern.

One complaint is that the PIK program took many more acres, about four times as much, out of production than originally anticipated. This left many agribusinesses with large stocks, virtually unprepared for the coming crop year.

For this reason, I joined 27 of my colleagues in signing a letter to Secretary Block asking him to make an early announcement if there is to be a PIK program next year. I believe an early announcement would go a long way to helping small businesses cope with the problems caused by PIK. I would emphasize that. I think we need to have an early announcement next year about whether we are going to have the PIK program. We need to have projections on what it will be like, so that we can plan. Also, I think Congress needs to move forward on a farm program. Of course, we need to be very aggressive in the export sales area.

Some small business owners have suggested a special loan program which would help these businesses. Some would like to see a set-aside of loan money in the FmHA business and industrial loan program. Others would like funding available through the SBA's economic injury program, which is currently unfunded. I hope our Government witnesses will address both of these possibilities. I hope they will also address the question of loan deferrals on existing loans.

I might say that I am very pleased that we have here from my home State of South Dakota, Mr. Robert Rawstern, president of the South Dakota State CENEX Managers Association in Huron. He is accompanied by a former colleague of mine in the House of Representatives, the Honorable Al Baldus. I want to welcome them and all the other witnesses. I hope that they will provide us with a good picture of the problems facing our rural small businesses.

There is no one more concerned about their plight than I am, and I look forward to their remarks.

I might say that I have here a chart that shows some projections that we do have. The chart that I have been provided with suggests that without PIK, $4 billion worth of seed would have been sold, and with PIK about $3.4 billion worth of sales. The projection for fertilizer is $8.9 billion without PIK, and with PIK $7.6 billion. For pesticides, without PIK, about $4 billion of sales; with PIK, $3.5 billion. Fuel, $9.3 billion without PIK; with PIK, $8.3 billion. Farm machinery, the purchases and repairs, $19.7 billion without PIK and $18.2 billion with PIK. The total is $45.9 billion without PIK and $41 billion with PIK, which shows almost a $6 billion difference on the economy, which would have an effect on jobs and on economic activities. Whether this will bear out is hard to say.

As I have pointed out, I am told that during the soil bank program the acres that were cultivated were cultivated more intensely and fertilized more intensely.

With that opening statement, we will insert the opening statements of those Senators who wish to submit them.

[The prepared statements of Senators Nunn, Boschwitz, and Nickles follow:]

STATEMENT OF HON. SAM NUNN, A U.S. SENATOR FROM THE STATE OF GEORGIA

Mr. Chairman, I want to commend you for holding this hearing today. I have been supportive of the PIK program and USDA's efforts to reduce the government-held commodity surpluses which have depressed farm prices to the lowest real dollar levels since the 1930's. Like most everyone in the agriculture community, I believe a program to reduce production and these surpluses was absolutely essential in the short-term if we were to give our farmers a fighting chance to recover from the worst downturn in the farm economy since the Great Depression.

The PIK program has received more participation than anyone imagined when it was announced. Approximately 82 million acres have been idled nationwide. This is in contrast to early USDA estimates of only 25 million acres. This overwhelming participation by farmers has already strenghtened commodity prices but it has created other problems whcih were not initially anticipated such as an adequate supply of commodities, particularly wheat, to be provided to farmers as PIK payments and the much greater than expected effect on the demand for farm supplies such as seed, fertilizer, pesticides and farm implements. It is this adverse effect on farm support industries which we are here to examine today. I think it is most appropriate for the Family Farm Subcommittee of the Small Business Committee to examine this problem. In many rural communities in my home state of Georgia agribusinesses are the lifeblood of the community. These small businesses serving the agriculture industry are the primary supplier of jobs in many towns and counties throughout the farm regions of our nation.

Therefore I believe it is important that we examine the condition of these support industries and the effect the PIK program has had on them. It is imperative that current and future policies of the Department of Agriculture, the Small Business Administration and other agencies of the federal government take into account the impact of the PIK program on these agribusinesses.

I have joined with Senator Pressler, Dixon and others in encouraging USDA to make early announcements of its plans for the 1984 crop year to give agricultural suppliers and farmers adequate time to plan for next year. I am anxious to hear Mr. Ahalt's comments on our request today. I was also pleased that SBA Administrator Jim Sanders issued a field directive of "reasonableness" in SBA's dealings with agribusiness borrowers who have been affected by the PIK program. I look forward to hearing and reviewing the testimony of the witnesses here today. I want to thank everyone who is participating for assisting this Subcommittee in better understanding the current economic climate in the agricultural support industries of our nation. Thank you Mr. Chairman.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman: Thank you for holding this hearing on the impact of the PIK program on agricultural support industries. When I held hearings across Minnesota in January, the farmers strongly supported PIK. Many of the farm supply companies supported it, too, but were aware that the program could make life more difficult for them in the short term. Today's hearing should help to clarify the problems which PIK may be causing.

I want to make it clear that I am a strong supporter of PIK. Some people have found it to be a convenient target for unfair criticism. No one ever claimed that PIK would be a no-cost cure to all of U.S. agriculture's ailments. It is true that PIK will cost a lot of money. Several journalists have found this an interesting topic. They tend to ignore the even higher costs which would have been incurred without PIK—not to mention the increase in carryover stocks and a continued recession in our rural areas.

The fact that PIK doesn't address all of agriculture's long-term problems does not detract in the least from the more important fact that PIK was the right medicine for today. How else would it have been possible to achieve a substantial reduction in planted acreage along with a simultaneous decrease of CCC-owned and controlled grain stocks? Can you imagine what the critics of PIK would be saying today if USDA had not taken this drastic action to help restore prosperity to American Farmers?

Indeed, as I travel across rural Minnesota, I sense a new spirit of optimism on the farm. PIK may not be perfect and it may have some negative implications in 1983 for certain suppliers. I continue to believe, however, that PIK is not only a quick and effective way to turn around the farm economy, but it is also the best program that was politically achievable.

Mr. Chairman, a challenge facing us today is to devise a 1984 farm program which will insure better times for agricultural businesses as well as farmers. Hopefully the witnesses will discuss the options for 1984.

STATEMENT OF HON. DON NICKLES, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Mr. Chairman: I am pleased that the Subcommittee on the Family Farm today is providing this forum to examine an important aspect of the Department of Agriculture's PIK program. This is certainly a timely subject. I thank my colleagues for allowing me this opportunity to contribute.

I think we are all award of the serious state of the farm economy. As we entered the 1983 crop year, commodity prices remained low. Exports were off for the first year in a decade. Bins bulged with a record 130 million tons in carry-over stocks. Prospects loomed for another bumper crop. Net farm income in Oklahoma last year was a paltry $14. And as the farmers struggled for black ink, so did local agribusiness firms who depends on the farmer's patronage.

In January, the Agriculture Department came out with a new approach. They called it a PIK program. Feedback I have received from farmers in my state has been almost unanimously positive. It has given them time to collect their thoughts and look toward long-term solutions. It has provided cash-flow to put in the next crop. And it has given them encouragement.

However, as with any government program, no matter how well-meaning or how carefully planned, there are certain individuals and industry segments disadvantaged by the program. It is virtually impossible to avoid disruption in the agricultural support industries when 4 million acres of farmland in the state of Oklahoma alone have been removed from production.

On the whole, I have found a willingness among agribusinesses to join their farmer customers in pulling their belts in a notch or two, knowing that a sacrifice now is necessary to yield better times later.

There's no doubt that reducing the projected wheat harvest by some 27 percent in my state means less insecticide, fertilizer, and herbicide this season. One group of fertilizer retailers, for example, notified me this week that in the marketing region which includes Oklahoma, dealers expect a drop in annual sales of 27.25 percent due to PIK. Implement dealers, likewise, have seen a slump in sales as a result of production cutbacks.

One group hard-hit in Oklahoma and I sorry to say not represented here today are custom harvesters. These businessmen travel in crews with their equipment from Texas to the Canadian border during the harvest season, spending only a few months of each year at their homes. The PIK program cut their acres for harvest by one third.

The custom cutters' position was especially severe as a result of a little-known World War II era agreement, signed by the US and Canadian governments in 1942, which until recently allowed Canadian custom harvesters to work in this country at a significant economic advantage over Americans. Because they could afford lower fees, Canadians were beating many U.S. harvesters to contracts on cropland available for harvest.

I am pleased to note that through the efforts of several of us who represent farm states, some progress has been made to alleviate this inequity. Unfortunately, a forty-year-old error could not be righted overnight.

Obviously, every well-intentioned program for helping one citizen may have ramifications harmful to another. The one-step that can be taken which will benefit all groups, however, is early announcement of the 1984 crop programs. Knowledge is imperative for sound business planning. Production agriculture is an inherently risky business, containing many unknowns: weather, markets, disease, and progressively more significant—international politics. Likewise, the fortunes of agribusinesses, most of which are local small business, ride the same waves as the farmers they serve. It is unconscionable to me that we in Washington may allow yet another unknown the cloud the farmer's plans.

I commend those senators who signed a letter dated May 17, 1983, to Agriculture Secretary John Block urging his early announcement of the 1984 program. I share their concern. Harvest for fall-planted crops like Oklahoma's hard red winter wheat comes in June. That means that farmers in my state are preparing right now to cut their 1983 crop. And they need to know today what factors will bear on their 1984 plans.

Knowing this, I wrote to Secretary Block on March 31—just one week after the last day of sign-up for the 1983 PIK program—urging him to announce the 1984 program as soon as possible. Oklahoma farmers and the agribusinessmen they patronize need to know—now. Perhaps the representative from USDA will be able during this hearing to give us some details on the next program. I hope so. Planning is important.

Mr. Chairman, I submit a copy of my letter to Secretary Block for the record.

Again, I commend my colleagues for their timely interest in this issue and welcome the testimony of those who have agreed to appear today.

U.S. SENATE,
Washington, D.C., March 31, 1983.

Hon. JOHN R. BLOCK,
Office of the Secretary,
Department of Agriculture,
Washington, D.C.

DEAR JACK: Congratulations on a successful PIK program. I commend you for your innovation and resolve in working toward a solution for the agricultural community's serious economic problems. Although I realize that PIK can be only an interim measure as we continue to seek better markets worldwide, I believe—and it is apparent from the statistics that many farmers agree with me—that the hard work you invested in the 1983 PIK program will provide a vital boost in the farm economy.

As you know, announcement of the PIK program for 1983 came well into the crop year for winter wheat growers. Largely as a result of generous grazing and haying provisions, participation in Oklahoma for wheat was far above the national average.

However, as a farmer yourself, you can certainly understand that producers must plan their crops as far in advance as possible. By harvest, a wheat farmer must commit himself to next year's plan. In Oklahoma, by mid-June he needs to know whether or not to expend thousands of dollars in fuel tearing up stubble and applying fertilizer in preparation for fall planting.

Therefore, I urge you to announce your decision regarding a 1984 program for wheat at the earliest possible date.

I appreciate your efforts and dedication, and look forward to your assistance in this matter.

Sincerely,

Don Nickles,
U.S. Senator.

Senator **Pressler**. At this time I am going to begin to call on our witnesses. I am very pleased to have the witnesses we have. I want to thank them very much for being here.

The first witness I wish to call is the Honorable J. Dawson Ahalt, Deputy Assistant Secretary for Economics, U.S. Department of Agriculture, Washington, D.C.

We look forward to your statement.

STATEMENT OF HON. J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C., ACCOMPANIED BY THEODORE EICHERS, AGRICULTURAL ECONOMIST, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. **Ahalt**. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before you today to talk about the impact of the payment-in-kind program and how we see it affecting rural America.

I have with me today, on my immediate left, Mr. Chairman, and your right, Mr. Ted Eichers from the Economic Research Service. He is our expert on the input-supply industry.

What I would like to do, Mr. Chairman, if it is agreeable with you, is to submit my statement for the record and simply make some summary comments about the key points.

Senator **Pressler**. Yes; that is fine.

Mr. **Ahalt**. I would like to speak about the history of the payment-in-kind program. In that regard, Mr. Chairman, we appreciate your strong support for this program.

As we looked at the agricultural situation in the fall of 1982, it was obvious that we had to announce a program for 1983 that would be more dramatic than we had put in place in the previous year. We were facing back-to-back harvests of record crops and extremely depressed world demand.

Therefore, Secretary Block began talking with farm organization leaders, representatives from commodity groups, Members of Congress, agricultural leaders throughout the country, as well as representatives from the input industry. We began discussing this problem in order to seek solutions. The more we discussed the idea, the more the support seemed to develop for some kind of a large payment-in-kind program. We implemented that program as a result of this broad-based support in early January.

The signup, as you know, exceeded our expectations. We ended up getting roughly 81 percent of the base acreage for the five payment-in-kind crops plus barley and oats signed up in the program. That means there is the potential in 1983 to take about 82 million acres, or a third of the base acreage, out of production.

Now we have to remember this is how much may come out of production because, of that 80-some million acres, there is roughly 13 million acres that are in a portion of the program where farmers have an option to decide later on whether they want to stay in the program.

Nonetheless, we are looking at a program that is going to bring about a dramatic reduction in the amount of acres that will be planted for harvest in 1983. We felt we had to do that because the farm income situation had been so depressed.

The advantage of the payment-in-kind program is that, while it cuts back production, farmers, by receiving payment-in-kind for participating, will have their cash receipts pretty well maintained. That is going to improve their cash flow situation, which is absolutely necessary in order to get rural America and the input-supply industry back to a better setting. We think that is crucial if we are going to have a healthy agriculture in the future.

Even with the poor economic situation that we have had in agriculture for the past several years, farmers have been spending annually about $140 billion on production expenses, taxes, and so on, in order to operate. Those large outlays, in the face of depressed commodity prices, have been why farmers have been in a squeeze.

Meanwhile, during this period, our agricultural input industry has not been doing well. We know that the farm machinery industry has been hurting for several years. Their sales have been declining since 1979. Therefore, we felt the payment-in-kind program was a necessary step to get agriculture into better balance, which, in turn, would allow the input sector to also do better.

When we put the program in effect, we knew there were some downsides, as you pointed out, for the input industry. We put some safeguards into the program to help us deal with that problem. Some people disagreed on the level at which we set those safeguards, but we felt that for 1983 we had to get a large reduction in crop production.

I would point out, Mr. Chairman: One of the things that we felt supported a large program was that when we announced the signup in the program, the share values of stocks for a number of the input manufacturing industries actually rose in the market. This demonstrated, I believe, that the market believed that this was an adjustment that had to be made. I believe the market was saying that currently there were simply too many resources in agricultural production, given the very depressed world demand and other problems facing agriculture. We saw that market reaction as a positive indicator.

In monitoring the performance of the stock market, since January, the share values of the stocks for these input firms have actually done better than the Dow Jones Industrials themselves.

I offer that as some background on how we have looked at the program.

Now we know that with reduced planting, it is going to reduce the demand for major inputs. I will tick off here very quickly, Mr. Chairman, our overall assessment for the major inputs.

In the fertilizer area, we are looking for total use of fertilizer this year to be down somewhere in the neighborhood of 12 to 14 percent overall. Use on the major feed crops, corn and sorghum, will be down somewhere in the neighborhood of 25 to 27 percent.

We know that the fertilizer industry has been suffering from excess capacity. There have been ammonia plants in this country that have been taken out of production. This action will probably mean that some more will drop out of production.

We also know that the effect of the program extends to dealers, and particularly retailers in heavy corn areas in the United States. We know that they are feeling the impact of this program.

The farm machinery industry is the one area that we had a number of discussions early on regarding the impact of the payment-in-kind program. There are really two aspects of the farm machinery area. One is actual purchases of tractors and other farm machinery, and, the other deals with repairs, maintenance, and so on.

So far as the purchases of machines go, we estimate that outlays will be down only about 2 to 3 percent, Mr. Chairman. The amount of farm machinery that is sold each year primarily depends on farmers' income or their income prospects, interest rates, and so on. Those factors are more important than the total amount of land that goes under cultivation. We believe that sales overall will be down only modestly, and the possibility exists that the improved farm-income prospects will actually provide the potential for some increase in farm machinery sales this year.

On the other hand, we know that repairs, and so on, are going to be way down. We estimate they will be off somewhere in the neighborhood of 12 to 15 percent for the year.

We expect the use of pesticides to drop somewhere in the neighborhood of 13 to 17 percent. Last year, 1982, pesticide use dropped about 3 to 5 percent. We figured early on it would be down that much again in 1983 if we had a program comparable to last year. Now it appears that pesticide use will be down substantially more.

Seed producers and retailers are going to be hurt substantially. I spoke to one of the witnesses about that before the hearing, Mr. Chairman.

We know that, particularly for the principal PIK crops, the seed manufacturers are hurting substantially.

In the case of seed corn, there is a relatively small number of large companies involved in the production, but there are also some small companies. Those small companies are having a difficult time.

We believe that overall seed purchases for these crops will be down somewhere in the neighborhood of 13 to 17 percent with corn and sorghum seed down 25 to 27 percent; cotton seed, 18 to 20; and rice down somewhere in the neighborhood of 25 to 28 percent.

On the other hand, manufacturers and retailers of legume seeds, and other seeds that go on the conservation-use acreage, are seeing an increase in demand as farmers make purchases to seed the acres that they are removing from production.

In the energy area, we are expecting use to drop about a tenth overall. The biggest impact will be in the liquid fuel area. Here use will be down somewhere from 25 to 30 percent. You will get some offsets, again, because while there will be less acreage tilled to be planted, there will be some need for fuel in getting the conservation-use acres into compliance.

With reduced production, of course, farmers will receive PIK entitlements. That is going to help maintain cash flow. Therefore, we believe that farmers' borrowing needs will be less here in 1983. We think, as I mentioned earlier, that development is going to help take some of the pressure off of the credit market, help farmers get back in a better financial condition, which we all know they need to do.

Also, the direct payments from the 1983 programs will give farmers additional funds to meet some of their financial needs this year. It, hopefully, means paying off the bills for inputs that they incurred in previous years.

You mentioned the employment area, Mr. Chairman. Here we think the effects will be relatively modest. We are talking about an industry that is pretty capital intensive. Nonetheless, we know that firms that apply fertilizer, deliver inputs, and so on, are going to see a reduction in demand for their services. We think overall that employment will be affected no more than 2 or 3 percent in the entire agricultural industry. We hope that those are not job losses. We believe that the extent to which employment is affected, that it will be a reduced work week and that sort of thing.

We have had discussions with the warehouse industry. Of course, our ASCS commodity operations people are working with the industry very closely because we are beginning to make the PIK entitlements in the southern part of the United States. The ASCS commodity operations specialists are going to be busy. Some in the warehouse industry have been concerned because they see the PIK program lowering the level of reserve grain held in the United States. On the other hand, it also means that we are going to have larger free stocks than in recent years and the industry will participate in handling that supply. Therefore, the warehouse-elevator industry is going to play a role in helping make the payment-in-kind program operate effectively.

The truck and rail industry, will be more active due to PIK. More grain than usual will move from the surplus to the deficit areas—here in the eastern part of the United States, for example, we use more grain than produce. Farmers in the deficit areas of the country also went into the payment-in-kind program, this means that more grain will have to come out of the interior part of the country to meet livestock and poultry needs here in the eastern part of the country.

Mr. Chairman, that completes the summary of my statement. I will be happy to try to respond to your questions.

[The prepared statement of Mr. Ahalt follows:]

FOR RELEASE ONLY BY THE SENATE
COMMITTEE ON SMALL BUSINESS

Statement
By
J. Dawson Ahalt
Deputy Assistant Secretary for Economics
Before The
Senate Committee on Small Business
Subcommittee on the Family Farm
June 9, 1983

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the Department's Payment-in-Kind (PIK) program and what we estimate will be its potential effect on rural areas.

Last fall, as worldwide demand continued to falter in the face of back-to-back record crops, it became obvious that bold and innovative steps were needed to deal with the situation. Secretary Block began meeting with commodity groups, agricultural leaders, the input supply industry and members of Congress to discuss the severity of the problem and to seek solutions. Out of these discussions, the idea of a large payment-in-kind (PIK) program to reduce production and stocks clearly sparked the most interest. In fact, the more we discussed the idea, the more widespread the enthusiasm became.

The development and sign-up phases of the PIK program are now history. Sign-up exceeded our expectations. Roughly 81 percent of the base acreage of the five PIK commodities (plus barley and oats) was signed up in the PIK and other acreage reduction programs. About 82 million acres, or 1/3 of the base acreage may be taken out of production and put into conserving uses in 1983. It should be noted, however, that this is the upper bound that may be removed from production. This is because of the 82 million acres--13 million are only in the acreage reduction and paid land diversion programs. In this case, producers have additional time to determine if they want to comply with the program. Market expectations and emerging weather patterns will be dominant factors influencing producers' decisions.

While substantially reduced plantings in 1983 point to a cutback in current year demand for agricultural inputs, the PIK program will maintain commodity supplies in the market. Thus, producers' cash receipts can be maintained. And with reduced outlays, larger net returns will help improve farmers' financial positions which are crucial to set the stage for a future recovery in the agricultural input supply industry. I believe this is important.

Even with depressed conditions in agriculture, farmers in recent years have been spending over $140 billion on production inputs. These large production outlays in the face of depressed commodity prices have put many farmers in a tight financial situation. Moreover, even this level of purchases has not been able to keep a number of farm input manufacturers and dealers from experiencing hard times. Hence, something had to be done to brighten the future. The PIK program has already boosted farmers' spirits. I know some in the input industry are concerned. Others have taken positive steps to deal with the current setting.

As we look at the impact of this program, Mr. Chairman, I urge that we not lose sight of our long term objective. We need a sustainable economic recovery and we need a healthy agriculture. The two are obviously related. We believe the PIK program is a temporary step to help further the restoration of prosperity for our farmers. With that improvement will come better times for all industries involved in agriculture and rural America.

Effects on the Nonfarm Sector

With substantially fewer acres planted, current year demand for farm inputs will decline. Farmers will use less seed, fertilizer, fuel, and pesticides and will need less operating capital. Farmers will also reduce use of farm equipment, thus extending its life and reducing the need for repairs. It is important to note that the 1983 PIK program only allows voluntary reduced plantings of the major grains and cotton. Acreages of some other crops may expand, and haying and grazing have increased. Moreover, the improved cash flow positions that many farmers are likely to experience because of reduced production expenses and larger income should allow many operators to reduce debt or make capital purchases that they have delayed because of future prospects. Overall, total input use is expected to decline 5 to 7 percent in 1983.

Impacts on the input industry will be the most pronounced in the short-run and will vary from region to region. However, with the 1983 programs in place we expect the financial health of the farm sector as a whole to improve markedly. Commodity prices have already increased significantly. As our export markets strengthen, coupled with a stronger domestic economy, input demand should improve. This is in marked contrast to excessive commodity stocks that have been overhanging markets and depressing prices for several years.

Fertilizer use this year is likely to decline by about 12 to 14 percent overall, with use on corn and sorghum down 25-27 percent. With the industry already suffering from serious excess capacity due to slack demand, some additional production facilities--primarily ammonia plants--may close. Since fertilizer prices are also likely to soften, the drop in fertilizer manufacturers' revenues will be greater than the decline in use. This effect will extend to fertilizer retailers, particularly in the major corn-producing areas, where the volume of business could drop off more sharply than in other areas.

The farm machinery industry has been under considerable financial stress in recent years due to the downturn in the farm economy, strong foreign competition, and high interest rates. The impact of the PIK program on farm machinery expenditures can be divided into two parts: 1) outlays for machinery, equipment, autos, and trucks; and 2) expenditures for parts, maintenance, and repair of existing equipment.

Farm machinery sales which totaled about $10 billion in 1982 are expected to be the least affected of all farm inputs by the PIK program. Farm machinery purchases as a result of reduced acreage are estimated to drop 2-3 percent. Further reductions in machinery sales and profits are of serious concern to the industry. However, since machinery sales are more closely related to farm income than plantings, improvements in income prospects resulting from the PIK program could possibly result in a slight increase in machinery sales.

Farm machinery sales have been dropping each year since 1979. However, unit prices have been rising throughout this period. Consequently, dollar volume has not dropped nearly as much as unit sales. Still, some machinery manufacturers are in financial difficulty.

The overall demand for maintenance, parts, and repairs is expected to decrease by 12 to 15 percent with the expected decline in planted acreage. However, per acre costs for maintenance and repair tend to increase with reduced acreage because there are certain fixed costs incurred regardless of acres.

Use of pesticides is expected to drop 13 to 17 percent. Pesticide use dropped 3-5 percent in 1982 and was expected to drop about that much again in 1983 under the previously announced programs. Expenditures would be down slightly more because of an expected modest price decline due to the reduced demand. While crop production accounts for about 95 percent of all farm pesticide use, crops involved in the PIK program account for about two-thirds of all crop pesticide use.

The impact on the basic pesticide manufacturer will be negligible, as farm pesticides account for less than 10 percent of the total revenues of nearly all such producers. Thus, a drop in farm pesticide sales of 12-15 percent would result in a total sales decline of less than 1 percent for all pesticide producers. Pesticide distributors and dealers who specialize in farm chemicals will be more seriously affected. However, pesticides generally account for a small share of sales of farm input suppliers. Some custom applicators, particularly those servicing the cotton industry, may suffer a more substantial loss of business. In general, however, the long-term effects of the PIK program on any segment of the pesticide industry should be minimal.

These expectations for pesticide useage assume normal weather and pest infestation. Of all farm inputs, pesticide useage is most affected by unforeseen occurrences. For example, if the cool, wet conditions we have recently experienced continue in many areas of the country, greater soil insect and weed infestations may occur and additional pesticide applications may be needed.

Seed producers and retailers, particularly those concentrating in the principal program crops of wheat, corn, sorghum, upland cotton and rice, will be more severely impacted because of the direct relationship between acreage planted and seed use. The PIK program could reduce overall expenditures for seed by as much as 13-17 percent. Quantities of corn and sorghum seed purchased by farmers could decline about 25 to 27 percent, while cotton seed purchases may be down about 18 to 20 percent and rice 25 to 28 percent.

The market for hybrid corn seed is dominated by a small number of relatively large firms. These firms are likely to be able to withstand the potential reduction in demand as a result of the high level of PIK participation. There are several small seed corn producers, however, who were in financial difficulty before this year and are likely to experience further financial losses as a result of PIK. The greatest impact on seed sales will be in the western fringe of the Corn Belt where participation was high.

Producers of grass and legume seeds, on the other hand, are already experiencing a surge in demand and substantial price increases, because these seeds will be used for cover crops on the sharply expanded conservation use acreage. Some regional shortages of these seeds have been experienced.

Energy use is expected to decline by 9-11 percent. Liquid fuel use will fall by more - about 25-30 percent. Except for those cases where farmers are the primary clientele and program commodities are the primary farm enterprises, lower fuel use will have little effect on wholesale suppliers or retailers.

Despite reduced production, the PIK program is expected to improve the cash flow position of many farmers in 1983 and 1984 and, in turn, reduce their credit needs and outstanding debt. Operating credit needs during 1983 are expected to decline by $2.5-$3.0 billion due to the PIK-related reduction in input expenses. This decline is expected to be mostly for short-term borrowing rather than for intermediate or long-term credit. An additional reduction in demand for operating credit can be expected as a result of the added capital available to farmers from direct program payments made in 1983. Direct payments to farmers will also permit them to reduce outstanding debt, improve liquidity, and replace depreciated capital items toward the end of the season.

The employment effects of PIK will be negligible due to the capital intensity of most input industries. But some regional or local impacts on employment and economic activity in the food- and fiber-processing and distribution system could be greater. At the local level, for instance, cotton-ginning firms and rice-milling firms could face a 20 to 25 percent decline in the demand for their services. Firms and individuals that will face significant declines in demand for their services include those that retail or transport inputs; apply fertilizers, lime, pesticides, and other chemicals; service farm machinery and equipment; and provide custom farm services.

As a whole, warehouses and elevators that handle PIK commodities are generally not expected to experience a significant decline in volume of business during the 1983 crop year as a result of the PIK program. Since commodities received as payment-in-kind can not be entered into the regular or reserve loan programs, free stocks of commodities will be considerably larger than last year at harvest time. This will foster the handling and merchandizing of grain by warehouses and elevators. Also, additional business activity will be generated by the disbursement of PIK commodities to program participants. The CCC is relying heavily on industry warehouses and elevators to help with this phase of the PIK program, which is no small task.

On the other hand, some increase in demand for both truck and rail transportation is expected from larger than normal feed shipments into deficit areas. Corn and sorghum movements may be greatest into feed deficit regions (Appalachian, Mountain, and Northeast). The PIK program may also influence grain flows within major producing regions, resulting in an increase of short-haul truck transportation.

PIK could affect possibly 2-3 percent of employment in closely related industries. Not all the workers affected will lose their jobs; some will face shorter work weeks or temporary layoffs, and some may face longer-term unemployment. As the $3 billion of added farm income generated by PIK works its way through the farm and nonfarm economy in late 1983 and through 1984, some additional jobs will be created to partially offset the effect of PIK. Already crop prices have improved significantly since announcing the PIK program and and the general outlook in the farm community is brighter.

Thank you. I would be happy now to answer any PIK or other questions you might have.

Senator **Pressler**. Thank you. That was a very good overall statement. I have several questions.

First, let me say that I think your division over there is one of the most interesting, the Economics Division. I read a lot of your materials and have for a number of years.

I have noted that many of the people who become good economists have done a period of time as an agricultural economist, including John Kenneth Galbraith and many others. As a matter of fact, I started out as a graduate student in economics before going into the Army years ago and never got back to it, but nearly every economist of national-international rank has spent time working in agricultural economics at some point, if you dig back through their biographical sketches. So I appreciate what you are doing over there.

Before I ask my questions, I want to call on Senator Baucus for any opening statement that he might have.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator **Baucus**. Thank you, Mr. Chairman.

More on the subject of agricultural economics, I must tell the chairman that my mentor here is my brother, who graduated in agricultural economics. In fact, he is a farmer-rancher in my home State of Montana. Some say that for every farmer there is a different agricultural economic point of view. In many respects that is right. Nevertheless, I do commend the witness.

Thank you, Mr. Chairman, for efforts to try to bring that profession together because it is a very valuable aid to the problems that face us.

Mr. Chairman, I have listened with interest to the statement of Mr. Ahalt, and I notice that we have other expert witnesses before us.

I would like to comment on some of the problems I see facing the farm supply business.

Mr. Chairman, the U.S. Department of Agriculture's original estimates of the number of acres of farmland that would be removed from production under the PIK program was about 25 million acres. In fact, we have seen a tremendous interest in the PIK program to such a degree that that figure now has tripled. The acreage that has been utilized is about 82 million acres.

There is no way that 82 million acres of farmland could be taken out of production without affecting agricultural support industries, such as seed, fertilizer, and the equipment business. This is especially true since these businesses had all of 30 days to review the proposed PIK program following its announcement on January 11 of this year.

Farm supply businesses rely on farm income for their livelihood. When the USDA estimates that the PIK program will result in a $4.9 billion decline in production expenditures by farmers, there is, indeed, cause for concern in the farm supply industry.

Last month USDA released figures on the extent of the PIK program, including estimates of its impact on the support industries. These new figures show a 12- to 15-percent drop in the seed, fertilizer, pesticide, and machine repair industry, and an 8- to 10-percent drop in fuel sales to farmers, and a 2- to 3-percent decrease in farm machinery purchases. I just add that this 2- to 3-percent decline in farm machinery purchases is in addition to already depressed sales due to high interest rates.

I note that the president of the National Fertilizer Solutions Association, Mr. Harry Wallner, is with us today. I received a letter from Mr. Wallner's association which related the results of a national poll they had conducted among their retailers. According to his poll, retailers estimate a decrease of 25 percent in dollar volume during 1983 as a result of PIK. The Montana Hardware Implement Association tells me that 12 implement dealers have gone out of business in the last 4 months in Montana alone. Other small businesses want to continue to support the goals of PIK. However, many of them will not be around to see any improvement in farm prices.

I believe it is clear that the action by the Federal Government—that is the PIK program—has led to significant hardships for a large and important part of our agricultural economy, the farm supply business. I hope that the witnesses before us today will address two actions that I support in order to deal with it.

First, the Secretary needs to announce the 1984 farm program early. July 1 for the wheat program and September 1 for the feed grain program seem like reasonable dates to me. Early announcement will give farmers adequate time to plan. In addition, early announcements will give the farm supply business the opportunity to plan their purchasing and inventory requirements early.

Second, I plan to offer an amendment to the supplemental appropriations bill to give the Farmers Home Administration the authority to make loans to businesses impacted by the PIK program.

Mr. Chairman, I believe these are safety precautions that are necessary to help the agribusiness we depend upon so clearly to survive in the days ahead.

I thank you, Mr. Chairman, for your hearings this morning.

Senator **Pressler**. Thank you.

I might say that this PIK program is very interesting from an economic point of view. I know the Europeans are not cutting back on their production. The Canadians are planting fence row to fence row. We do not know what kind of an impact PIK is going to have on our balance of payments ultimately, but also what kind of an impact it is going to have domestically on jobs and in spin-off areas.

Therefore, one of the purposes of this hearing is to get some of the facts, and Secretary Block has been very open to suggestions. We certainly would say that the Secretary and the team he has assembled are very cooperative within the guidelines that they face.

I know that the PIK program for next year is being designed at this time, and so many of the things that will come forth today we intend to use in helping to design that program.

First of all, I would like to ask a question about the individual support industries. Was this chart that I had up here pretty accurate? It came from the Department of Agriculture. I want to go through each of these.

You said seed sales would be the worst; is that right?

This is a USDA chart, so it must be right.

Mr. AHALT. That is right, Mr. Chairman. That was taken from an early table that we released.

Senator PRESSLER. You said, I think, that seed sales would be hurt—who are they? Are these the seed farmers as well as the seed salesmen?

Mr. AHALT. This would be the amount of money, Mr. Chairman, that farmers spend each year for those particular items.

Senator PRESSLER. Who will get hurt if this is allowed to go on? This is the most dramatic one; is that right?

Mr. AHALT. It means that the seed retailer as well as the seed producer feels the impact of that reduction in purchases. It is the same in the case of fertilizer.

Senator PRESSLER. Fertilizer is not quite such a dramatic decline.

Mr. AHALT. However, the point I would make, Mr. Chairman, is that it affects the retailer as well as the manufacturer or anyone in the whole production-distribution line. There is no question about that.

Senator PRESSLER. Or the farmer who grows hybrid seed?

Mr. AHALT. Sure.

Senator PRESSLER. You mentioned that there was going to be a decline in pesticides, anyway, I think.

Mr. AHALT. The purchases of a number of these items, Mr. Chairman, were declining before the payment-in-kind program came along.

Senator PRESSLER. For what reason?

Mr. AHALT. Because of the depressed level of income in agriculture. Things have just been tough all around, and the input industry obviously has been feeling that effect.

Senator PRESSLER. Is the farm machinery area one like the automobile industry? They say that automobile sales are up, in part, because the average car on the road is so old that they can go for a year or two longer. I guess the average age of the car on the road is 6 or 7 years. You can go for a year or two of less purchases and then all of a sudden you have to purchase. Is farm machinery like that? Could we go for a sort of automatic year or two——

Mr. AHALT. Farm machinery is what we call a capital input. It lasts for several years. However, farm machinery sales have been depressed since 1979. They have been declining since 1979. Is that right, Ted?

Mr. EICHERS. That is correct; 1979 was a good machinery year, but since 1979 machinery sales have been dropping 15 or more percent a year overall. This is unit sales of machinery. The dollar sales have not dropped that much because prices were——

Senator PRESSLER. Prices were going up. However, my question is this: A farmer with a combine, for example, he can let it get a year or two older, but at some point he has to start catching up or replacing that. Are we at a point where some of that machinery is going to be replaced, anyway, or is it getting worn out?

Mr. EICHERS. We are certainly getting to the point where some of these people have been putting off purchases for 3 years already. Some are getting to a point where they can no longer make do with what they have. We think that is a strong point in the demand factor, and that with the PIK payment we will see farmers using whatever extra cash they get to replace at least the stuff that they have not been replacing for so long.

Senator **Pressler**. Have you had indications that agribusinesses and businesses in small, rural areas are going to be needing special assistance? I know over on the House side someone has proposed some emergency SBA loans for small businesses that fall into a category that are hurt by PIK. Do you think it is this severe that it merits that sort of action?

Mr. **Ahalt**. I don't know, Mr. Chairman, whether special legislation is needed or not. I do know in some areas of the country, where we have intensive agriculture, where the principal crops that are grown are in the payment-in-kind program, that economic activity has been severely impacted. The numbers that we have been talking about here are nationwide. We do not have the resources to pinpoint what is going on very well in local areas. We know that some are hurting, and we know that the House of Representatives has proposed some lending remedies.

Senator **Pressler**. On the other side of the coin, in my home town of Humboldt, S. Dak., I had a merchant tell me there last weekend that the payment-in-kind program actually put some money into farmers' pockets for the first time, and they felt confident about buying. They were actually purchasing more, which is the opposite point of view.

Have you had any indications of that?

Mr. **Ahalt**. Yes, we have. We know, Mr. Chairman, that optimism on the part of farmers is much better today than it was last fall. I believe the payment-in-kind program deserves much of the credit for that change in attitudes. We have had some indications that farm machinery purchases showed a bit of pickup, albeit it temporary, at one period of time. We are seeing that sort of thing.

Senator **Pressler**. Maybe these projections will not be true?

Mr. **Ahalt**. If history repeats itself, we missed the mark, Mr. Chairman. Our accuracy sometimes goes astray.

Senator **Pressler**. Some of these things are hard to predict.

I have recently cosigned a letter to Secretary Block asking for an announcement by August 15 on feed grains and July 1 for wheat, because I think, as has been pointed out, an early announcement would be helpful to everybody.

I did notice an article in yesterday's Washington Post saying that we are going to run out of wheat. I do not know if that article was accurate or not.

Mr. **Ahalt**. I also saw that article, and I would like to put that article into perspective, Mr. Chairman. We are not going to run out of wheat or any other commodity. It turns out that we have right now about a billion bushels of wheat in the farmer-owned reserve. A substantial amount of that will be used to make the PIK entitlements.

We also had a large signup of producers that did not have any loan or reserve grain. They previously had not been our Government programs. That signup was so great at the same time that we made a wheat flour sale to Egypt, that we used up our CCC owned stocks. Therefore, we are going to have to require a few farmers to put their 1983 crop into loan and then forgive that loan. That is not much different from someone who had a 1982 loan, which would be forgiven in the payment-in-kind program. We certainly are not running out of wheat, Mr. Chairman. Of that billion bushels of wheat that is now in reserve, we estimate by next year this time it will be reduced, but we will still have 600 to 650 million bushels in reserve. It is just that the grain that is in reserve is concentrated into fewer hands, and we have had a big signup throughout the country.

Senator PRESSLER. I am glad you put that into perspective. That Post story had caused some misunderstanding. I think that is important.

Also, I always find it somewhat humorous or ironic—I go to lunch 2 days a week with a group of Senators at different organizations, and everybody has always read the Washington Post. That is our common denominator, but nobody has ever read the Congressional Record. [Laughter.]

We do not read our own publication.

I think that this time the Post was a little off. So I am glad you put that into perspective.

If you were advising a small businessman in rural Montana or Iowa or South Dakota for the next 2 years, what general assessment would you give him from the agricultural economics department point of view?

Mr. AHALT. Mr. Chairman, I would first like to underscore the point that the payment-in-kind program is a temporary program. We implemented it in 1983, and we believe that our acreage reduction program for 1984 will have a payment-in-kind component.

Beyond that, however, we cannot operate a program like this. We believe that farmers should get back to taking their fundamental signals from the marketplace. That is really what most of the agricultural community believes is best for agriculture in the long run.

At the same time, I would caution businessmen the same way that I would farmers, and that is that our world markets for agricultural commodities are not growing as rapidly as they did in the previous decade. That is a problem for us in agriculture because we have a tremendously productive agricultural plant here in the United States. We have to be sure that we do not get it geared up to produce beyond what the market can absorb.

We are hoping that as economies recover worldwide, as we get back into doing more business with the Soviet Union, that markets will pick back up and provide a better alinement with our supply and demand.

Senator PRESSLER. Senator Baucus, do you have questions?

Senator BAUCUS. Thank you, Mr. Chairman.

You said our markets are not expanding as much as they should. I will agree with that. However, isn't it true that our markets are declining—that is, U.S. agricultural exports? This year in absolute terms and in relative terms both they are lower than last year?

Mr. AHALT. We have had two years of decline in our exports.

Senator BAUCUS. That is correct. Isn't it also true that other countries are picking up the balance? For example, my figures are that—and correct me if I am wrong—in 1976 the EEC exported about $12 billion in agricultural exports and in the United States it was about $22 billion? We had a near 2-to-1 advantage in 1976.

Here it is 7 years later and the estimates that I get are about $30 billion for both EEC in agricultural exports as well as for the United States. Whereas we had a 2-to-1 advantage in exports, agricultural exports, 7 years ago, now it is a 1-to-1 ratio. Europe has been gaining exports.

Mr. **Ahalt**. That is correct.

Senator **Baucus**. We have been losing agricultural exports. The explanation I hear basically is because those countries are very heavily subsidizing both their production, their processing industry, and they are exporting their surpluses, whereas we tend to store ours. My question really is this: PIK is great, but we live in the world community.

Mr. **Ahalt**. Sure.

Senator **Baucus**. Canada is expanding its acreage. Argentina is jumping for joy over PIK. All these other countries, they love PIK because they can expand their acreage, and so forth.

What are we doing, what is the administration doing, to get those other countries to reduce their subsidies, export subsidies, which are about $6 to $7 billion within the EEC and $30 billion total, internal and export in the EEC?

It just seems to me that in the PIK context we have to look at the large perspective, too, and what is happening in the world has a very direct bearing on farm prices.

What are we doing, what is the administration doing, to very definitely get those other countries to stop practicing these unfair practices?

Mr. **Ahalt**. Senator, we have a number of initiatives underway to deal with that. This administration has been holding continuous discussions with the European Community over the export subsidy issue for the past 2½ years. Those discussions continue in a number of different fora.

Our inability to get some form of reform out of the Community was one of the factors that led us to initiate the Egyptian——

Senator **Baucus**. I commend the administration on that. That was a good idea. I know the French were very upset.

Mr. **Ahalt**. They were.

Also, because of this problem, we initiated the blended credit export credit program this past year.

Senator **Baucus**. I know.

Mr. **Ahalt**. We are continuing to try to work on this problem. It is a problem as you quite correctly point out. We are trying to deal with that issue. It is a tough——

Senator **Baucus**. I appreciate that. I know you are trying hard. I know you are working on it, but I also know that you have to do more than talk.

I do not think France and other countries, out of the goodness of their hearts, are going to reduce their subsidies. We have to fight fire with fire. We have to somehow show them that we mean business; that we are not going to always turn the other cheek.

Mr. **Ahalt**. That is why that sale was initiated this winter, to demonstrate——

Senator **Baucus**. Can we expect other similar actions by the administration?

Mr. **Ahalt.** We are continuing to look at the matter on a case-by-case basis. It is not only the European Community, Senator, that we have to deal with.

Senator **Baucus.** That is correct.

Mr. **Ahalt.** Brazil, for example, is selling broilers into the Middle East at prices below what the European Community had been selling. We lost the market to the Europeans, and now the Brazilians are coming in even at lower prices. However, this matter is getting a very high priority, I can assure you.

Senator **Baucus.** I appreciate that. I hope you keep boosting it up there, making it a higher and higher priority.

I understand the point, too, that with PIK perhaps there is more income for more farmers and, therefore, they can make more purchases, the point the chairman made.

For whatever it is worth, I took my private survey when I was home last week, too. It is a mixed bag. Some farmers say that they are in a better position; others are not. Some implement dealers say they are getting a few purchases, but others are not.

I must tell you, though, in my very informal, unprofessional, unsophisticated poll, in talking to as many dealers as I could—and I am talking about implement dealers now—on balance more were hurt than were helped. On balance, I would put the ratio at about 75 percent, something like that. There are a few that are better, but most are not.

Thank you, Mr. Chairman.

Senator **Pressler.** One area that we have not covered is the USDA's business and industrial loan program. How much money is available through that program? Will all this money be loaned out this year?

Mr. **Ahalt.** Mr. Chairman, I am not sure that I have that with me. I do not have an up-to-date rundown on the business and industrial loan program, but I will get that and submit it for the record.

Senator **Baucus.** Mr. Chairman, if I might, my information is that there is $300 million authorized under the B&I loan guarantee program and $40 million of this $300 million has been obligated. That is the information I have from looking at the program.

Mr. **Ahalt.** I will get the information and get back to you, Mr. Chairman.

Senator **Pressler.** Thank you very much.

[Subsequent information was received and follows:]

Status of the Business and Industry Loan Program

Congress authorized the guaranty of $300,000,000 under this program for the fiscal year ending September 30, 1983. Through May 31, 1983, 35 loans were approved amounting to $39,606,810. We have preapplications and applications in various stages of processing at State Offices for 121 loans amounting to $211,182,000.

We are notifying all State Directors that businesses having difficulties due to the PIK program can be assisted under the existing business and industrial loan program. Loan demand has been down due to the recession and high interest rates.

Senator **Pressler.** We will leave the record open for questions and additional comments.

[Subsequent information was received and follows:]

J. JAMES EXON
NEBRASKA

COMMITTEES:
ARMED SERVICES
COMMERCE, SCIENCE, AND TRANSPORTATION
BUDGET

United States Senate
WASHINGTON, D.C. 20510

June 9, 1983

The Honorable Larry Pressler
United States Senate
Washington, D. C. 20510

Dear Larry:

I am enclosing a copy of a statement I received from the Nebraska Fertilizer & Ag-Chermical Institute, Inc. in Lincoln, Nebraska. They are requesting this be made a part of your hearing record on the Family Farm scheduled for June 9.

I appreciate your assistance with this matter.

Sincerely,

Jim

J. James Exon
United States Senator

Enclosure

cc: Robert L. Anderson

1983 JUN 13 AM 11: 27

Nebraska Fertilizer &
Ag-Chemical Institute, Inc.
chemicals for progressive agriculture
2ND FLOOR NORTH, 1620 M STREET, LINCOLN, NEBRASKA 68508
PHONE (402) [illegible]-1258

1983 PM 2: 15

June 6, 1983

Senator Larry Pressler
United States Senate
407-A Russell Building
Washington, DC 20510

Dear Senator Pressler:

REF: Hearing - U.S. Senate Small Business Committee: Sub-Committee on The Family Farm - 10:00 a.m., Thursday, June 9, 1983

As Chairman of the SubCommittee conducting a Hearing on the impacts of the Payment in Kind Program, you are to be commended for providing a forum for comments. I sincerely appreciate your holding this hearing.

Enclosed are comments on behalf of the Nebraska Fertilizer & Ag-Chemical Institute, Inc. Our Association represents over 800 fertilizer and ag-chemical dealers in Nebraska.

I am sending this information to you by Federal Express, hoping it will reach you in time to be part of the record for the Hearing.

If you have any questions or need additional information about our testimony or the comments, please do not hesitate contacting me.

I apologize for not being able to appear personally before the Hearing. Thank you again for your help.

Sincerely,

Robert L. Anderson

Robert L. Anderson
President

RLA/Kathy

CC: Senator J. James Exon - Nebraska
Senator Ed Zorinsky - Nebraska
Association Board of Directors

STATEMENT SUBMITTED FOR RECORD BY:

NEBRASKA FERTILIZER & AG-CHEMICAL INSTITUTE

LINCOLN, NEBRASKA

TO:

UNITED STATES SENATE

SMALL BUSINESS COMMITTEE

SUBCOMMITTEE: THE FAMILY FARM.

JUNE 9, 1983

10:00 A.M.

WASHINGTON, D.C.

THE HONORABLE LARRY PRESSLER, CHAIRMAN

REQUEST FOR FINANCIAL LOAN MONEY TO PIK - IMPACTED AGRIBUSINESS DEALERS AND SUGGESTED CHANGES TO FUTURE PAYMENT-IN-KIND (PIK) PROGRAMS BY USDA

Statement by:

Robert L. Anderson, President
Nebraska Fertilizer & Ag-Chemical Institute
1620 M Street
Lincoln, NE 68508
402/476-1258

On behalf of the Nebraska Fertilizer & Ag-Chemical Institute, an 800-member Trade Association comprised of fertilizer & ag-chemical dealers in the state of Nebraska, I urge you to take immediate action to provide loan money assistance to the nation's agribusiness suppliers, which have been drastically effected by the 1983 Payment-In-Kind (PIK) program implemented by the United States Department of Agriculture (USDA) this year for the nation's farmers. This program has been an economic disaster to our dealers and other agribusiness suppliers to farmers to the tune of $882,188,400 in Nebraska all by itself.

Our calculation of $882,188,400 of a direct economic loss to agribusiness suppliers is calculated at $200 an acre (normal cash cost per acre as calculated by a University of Nebraska ag economist) and multiplying this by the feed grains acres set aside in Nebraska of 4,410,942 acres. A billion dollar impact can be reached by the inclusion of adding 963,798 acres of idled wheat acres. If an Economic Macro-Effect from 3-7 times were applied against this billion dollar impact, the loss in jobs and other losses would be even more far-reaching in the 4-7 billion dollar range to our state alone.

Agribusiness suppliers need financial loan assistance immediately. Our fertilizer and ag-chemical dealers booked a lot of inventory last fall to meet farmer needs for this spring's season. When the PIK program was finalized in January, 1983, it was already too late for these agribusinesses to turn back their inventories. In addition, many of these same agribusiness suppliers were reading USDA's words estimating the impact (as outlined in the "Final Regulatory Impact Analysis" issued on January 11, 1982) of only a total "national" billion dollar impact and idled acres of wheat in the 8-10 million acre range (32,052,569 actual) and idled corn acres of 10-12 million acres (39,429,878 actual acres idled) and they weren't overly concerned. Today most of these agribusiness suppliers have terminated as many employees as they could and also have eliminated any-and-all fixed expenses possible for the coming year. Even this cutting of all possible costs will not allow many of these small agribusinesses to survive.

The effect of these small firms going out of business in a small town not only will hurt the farmer in the long run, in having less service available to them; there will be less jobs available in these small communities. These dealers do not have any choice since many of them have cut all their expenses, and now, with the drop-off of business anywhere from 20-60%, they just can't make it without a refinancing of their business. I urge this Committee, in any and every way possible, to provide the loan money so these small agribusinesses can refinance to survive another year, so next year they'll still be in business to provide the farmer's needs and keep a solid economic base under these small communities.

Institute earlier has sought help from Nebraska's Governor & President of the United States. The Institute, for some time now, has been seeking financial assistance for our dealers. On March 31, 1983 a request was made to Nebraska's Governor Robert Kerrey to declare an economic emergency or economic disaster due to the PIK program. The Governor replied it was not within his powers to take either of these actions. On April 20, 1983, the Institute requested the President of the United States to make a similar economic declaration of emergency or disaster. From the President's request replies were received from the U.S. Small Business Administration and the USDA Farmer's Home Administration saying it was not possible for either of these agencies to provide this type of financial assistance to agribusiness. The only possibility remaining for financial loan-money assistance to our PIK-impacted agribusinesses is from the Congress of the United States.

Our request is for financial assistance, not a long-term subsidy. By designating loan money, hopefully at a lower interest rate, you will be helping these firms stay in business next year to pay back the financial assistance they can't receive anywhere else at this time. These agribusinesses had very little input into the Payment-In-Kind Program and are now being severely strapped by a federal government program which did not consider their possible plight in the first place. The Institute feels they deserve some consideration in receiving federal government loan money to allow their survival due to a federal government agricultural program.

Suggestions for future Payment-in-Kind agricultural program. The Institute, while requesting immediate financial loan money for impacted agribusiness suppliers, also has suggestions for changes in future Payment-In-Kind programs. Some of these suggestions are:

1) A longer public comment period on PIK programs - this year's PIK program allowed a very short comment period. By the time the particulars of the program were analyzed, it was already too late to comment during January. USDA's "Final Regulatory Impact Analysis". In the future, USDA needs to take into consideration the full economic impact on agribusinesses and the consequences of a larger farmer sign-up in future PIK programs.

2) Prevention of whole base bids in future PIK progams - the allowance of letting farmers bid their entire farm into the PIK program, overwhelmingly strapped some agribusiness firms. Our experience has been farmers bidding 100% into the PIK program were the larger farmers with the largest number of acres. When a dealer experiences several of these, his business can be cut drastically.

3) Earlier announcement of program details - as I mentioned earlier, many of our dealers booked in inventory for this year's season without knowing

the particulars of this year's PIK Program. This means they'll pay the interest on this money; the product will sit without being used; and, an extra financial stress was placed on their business. An earlier announcement would help these dealers prevent these type of inventory problems in the future.

Your Senate urged to provide low interest rate money loans & PIK Program Changes. Again, I can't stress strongly enough many of these small agribusiness firms in small towns in Nebraska have been forced to lay off employees, cut their fixed expenses, and are having trouble surviving to next year's fertilizer & ag-chemical season due to the impact of the Payment-In-Kind USDA Program. They need help now to refinance their business to allow them to survive to next year's season. They cannot get this money, in many cases, through their local banker. Your passage of any legislation to make available self-help, low-interest rate money would be helping the rural economies of Nebraska and the rest of the nation. These small agribusiness suppliers would be eternally grateful for your action and would be forever indebted for you for your help. The 800 members of the Nebraska Fertilizer & Ag-Chemical Institute urges you to pass legislation to allow low-interest rate loan money for these impacted agribusinesses as soon as possible, since time is so critical to many of them.

If the Institute can in any way be of further assistance in helping this Subcommittee, don't hesitate to contact us. I thank you for this opportunity to present this statement for the record of this hearing and any action you take to help this nation's agribusiness suppliers effected by the federal Payment-In-Kind agricultural program would be sincerely and forever appreciated.

Respectfully submitted:

Robert L Anderson

Robert L. Anderson, President
NEBRASKA FERTILIZER & AG-CHEMICAL INSTITUTE

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210 Walnut Street
Des Moines, Iowa 50309
(515) 284-4890

203 Federal Building
101 1st Street S.E.
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United States Senate
CHARLES E. GRASSLEY
135 Hart Senate Office Building
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228 Post Office and Court House Building
320 6th Street
Sioux City, Iowa 51101
(712) 233-3331

210 Waterloo Building
531 Commercial Street
Waterloo, Iowa 50701
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June 28, 1983

The Honorable Larry Pressler
Chairman
Subcommittee on Small Business: Family Farm
SR-428A Senate Office Building
Washington, D.C. 20510

Dear Larry:

Enclosed is a statement written by Mr. Merle W. Hunt of Ackley which he would like to have inserted into your June 9 hearing record. I appreciate your help with this matter.

Sincerely,

CHARLES E. GRASSLEY
U. S. Senator

CEG/nm

1983 JUL -5 AM 11:18

Committee Assignments:
BUDGET
LABOR AND HUMAN RESOURCES
CHAIRMAN, Aging

FINANCE
CHAIRMAN, Oversight of the Internal Revenue Service;
Estate and Gift Taxation;
International Trade

JUDICIARY
CHAIRMAN, Administrative Practice and Procedure;
Immigration and Refugee Policy;
Constitution

SPECIAL COMMITTEE ON AGING

June 6, 1983

STATEMENT TO FAMILY FARM SUB COMMITTEE OF SENATE SMALL BUSINESS COMMITTEE
June 9, 1983

The seed corn industry is in a state of chaos as a direct result of the high farmer acceptance of an extremely attractive PIX farm program.

This industry is extremely competetive; the result is a quality product at a reasonable price unequaled anywhere in the world! The industry is made up of a relatively small number of very large firms, some of whom command a sizeable share of the market in many areas. In addition there are a large number (in the many hundreds) composed of family owned organizations, most of whom are involved primarily in the production and/or distribution of corn seed exclusively. Some organizations are diversified, selling farm seeds other than corn or are divisions of firms whose primary business is non agricultural. Because of this, it is difficult to come up with aid which is equitable to all, or justifiable from the tax-payer citizen point of view.

Planning decisions as to the anticipated seed needs of farmers takes, at the very least, 12 months planning prior to the farmer's planting season. After May of the previous year, no further changes can be made. Therein lies the cause of the problem affecting the entire industry, large and small alike. Decisions on inventory needs for this springs planting were made in January and February of 1982. When the PIX program was announced in January of 1983, the industry was powerless to adjust to the radical change in seed needs caused by the farmer-acceptance of the PIX program. The result is that the seed inventory will have to be carried foreward to the 1984 season. This loss of dollar volume will be unavailable to support payroll, debt service, research, etc. so necessary to a continuing viable seed industry. Granted that much of this seed will be eventually used by the farmer, but those raising or selling this seed must finance the carrying of this expensive inventory for an additional year or more. With current bank rates of interest this is going to be impossible for many firms operating independently without the financial resources of a large percent coming from a parent company.

The net result will be failure or absorbing of many of these firms with the resulting reduction in competetion and the concentrating of sales in fewer hands. This, I feel, will be detrimental to the American farmer who has enjoyed and profited from the competetive nature of the seed corn business.

I don't feel that Government paying for damages sustained because of the PIX program is the answer. While all corn producing companies have suffered, many are better able to weather the crisis because they are (1) diversified and may actually have profited from the PIX program by increased profits from small seeds and forages used to plant PIX acres, or (2) are divisions of non-agricultural companies (such as drug, chemical and multi national conglomerated) which though unpleasant to management may draw on capital from the parent company to sustain them for several years. This net end result for these large firms could be a strengthening of their position in the market due to reduced competetion from smaller firms.

May I suggest the availability of low interest loans to affected firms for up to 5 years to regain their financial strength. In the past, most such government loans are made available only to firms unable to obtain financing from other sources. Some-one such as myself may be able to get additional financing from my local lender but the additional cost of added capital needs assures yet another year of financial drain. The net result is-- do I wish to continue as a small independent or attempt to disengage entirely from the industry.

Two firms with whom I have a contractual production relationship are unable to pay my family seed business of 49 years---one is in Chapter 11, the other has a warehouse full of seed but no cash to pay for it. Several friends of many years are at a financial crossroads.

May I suggest the PIK statement supporting IRS tax forms be used in determining eligibility rather than bushels of seed sales lost as was used in the Kennedy Administration when last minute government program changes caused injury to this industry.

Thank you for your consideration of this situation.

Sincerely,

J. M. HUNT & SON INC.

Merle W. Hunt

Curry Feed & Fertilizer Company

P.O. Box 729 **Elk Point, SD 57025** **Phone: 605-356-2706**

June 4, 1983

The Honorable Larry Pressler
United States Senate
Washington, DC 20510

Honorable Senator Pressler

I would appreciate your entering this letter into the record at your Subcommittee hearing on June 9th, regarding the impact of PIK on input industries.

Curry Feed and Fertilizer is an independent feed and fertilizer supplier. We apply fertilizer and pesticides for farmers in the southeastern corner of South Dakota.

The PIK Program imposed a tremendous financial burden on our company. Other agri-businesses similar to ours in our area have also suffered.

The reason for the adverse effect of the PIK Program on our company is as follows:

The set aside acres were much higher than we projected. From USDA reports in January we projected an 18% set-aside and made plans accordingly. On March 18th USDA accepted whole base bids which increased the set-aside in our counties to 45%.

The increased set-aside suddenly reduced our potential volume by 35%-but even more important, the pricing structure collapsed. The low demand and excess inventory created a classic supply-demand situation, where dealers were selling at cost to get rid of inventory. Panic engulfed our competitors pricing structure which added pressure to our margins and thus to our profits.

The combination of decreased volume and decreased margins add up to a catastrophe.

May I recommend that in future programs:

1. Announce the program in August or September. We need to know early to adjust our purchases and expenses. The rarmer needs to know so he can plan his fall fertilizer program for specific fields.
2. Work harder on marketing our product. We can produce efficiently, but we need help from government to sell our commodities.
3. USDA should project accurate goals for set-aside acres. It is ridiculous that an agency should project one set-aside gola in Janurary(23[illegible] acres) and then exceed it by a factor of 3½ in March (82M acres)! This misprojection has cost our industry millions of dollars. There is absolutely no excuse for this misleading information.

-7 AM 9 29

Jt

NUTRA-FLO LIQUID FERTILIZERS

Curry Feed & Fertilizer Company

P.O. Box 729 Elk Point, SD 57025 Phone: 605-356-2706

In summary, I am proud that for 25 years we have been a part of increasing our food productivity and increasing our farmers' efficiency. Please do not destroy the free market-oriented system that made modern agriculture what it is today.

Yours very sincerely,

Curry Feed and Fertilizer, Inc.
John W. Curry, President

NUTRA-FLO
NUTRA-FLO LIQUID FERTILIZERS

Senator **Pressler**. We want to thank you very, very much for your fine testimony.

I will next call on Mr. Robert Rawstern, president of the South Dakota State Cenex Managers Association. He is accompanied by Al Baldus, who served, I think, with both Senator Baucus and I in the House of Representatives.

Also, we will hear from Mr. Jerry Harris of the National Cotton Council from Lamesa, Tex.

We welcome you here.

Bob, do you want to begin or, Al——

Mr. **Baldus**. I defer to my employer.

Senator **Pressler**. Good.

STATEMENT OF ROBERT RAWSTERN, GENERAL MANAGER, SOUTH DAKOTA STATE CENEX MANAGERS ASSOCIATION, HURON, S. DAK.

Mr. **Rawstern**. Mr. Chairman, my name is Robert Rawstern, and I am the general manager of the Cenex Service Center in Huron, S. Dak., and I am also president of the South Dakota State Cenex Managers Association. This association represents about 80 companies, Cenex cooperatives, within the State of South Dakota, which handle fertilizer, petroleum, feed, seed, chemical, and some of them are also in the grain purchasing business.

All of these cooperatives in the State of South Dakota are completely owned by the farmer and controlled by a board of directors through management.

I appreciate the opportunity to come before the committee this morning to report on the PIK program for small businesses in South Dakota.

Possibly we are a little bit early to get the full impact of the PIK program, being 4 or 5 months into the program. I feel we are going to have a little bit of a pecking away each month at certain commodities as we go down the road.

Some cooperatives within the association have experienced decline in farm supply products due to the PIK program, but we still support the PIK program widespread throughout the State of South Dakota, because we feel that agriculture has needed something in the past 3 or 4 years to help. Therefore, we feel it is necessary for a strong farm program possibly in another year.

We are always affected in South Dakota by changes in the farm programs because per capita we have the most agricultural State in the United States, which we are proud of.

Some of the problems that we feel due to the PIK program would be an earlier announcement. Projections, budgets, ordering, warehouses were full before the PIK program was announced in January. The PIK program then caused two possible serious problems. One is shortage of working capital for some of the small businesses due to a carryover of the inventory that they will not sell because of the acres generated by PIK that will not be farmed. Second, smaller businesses cannot stand to have this money tied up and, due to high interest, are dumping some of this product in the country, causing severe margin losses due to high competition, and this has caused a problem throughout all of agribusinesses in South Dakota.

To suddenly shut down a multimillion dollar fertilizer chemical plant and then start it back up in years to come, or whenever, is going to produce an increase in the product that will be sold to agriculture, generating a higher cost for production per acre.

While we must have supply management programs, we are concerned about the U.S. position in agricultural exports, the position of several other nations in their promotions of exports, the amount of foreign subsidies, and the efforts in credit programs, financing, and promotions that other exporting nations are using.

While we need supply management programs, we need also to double our efforts in being creative and innovative in finding ways to increase our share of the exports.

A full-scale evaluation should be made of USDA's export programs, including their market development efforts. Over the last 3 years our major competitors in the agricultural export market have spent an average of 39 cents for every dollar of product exported.

In summary, we believe that future agricultural policy should be ongoing and long range, rather than 1 year. They should protect producers in periods of low prices, and work toward stable growth of export markets, and supply and demand.

Much can be done to soften the impact on business and agriculture by making decisions ahead of budget, ordering, and planting decisions.

I have turned my statements in. With that, I thank you.

[The prepared statement of Mr. Rawstern follows:]

TESTIMONY OF
ROBERT RAWSTERN
GENERAL MANAGER
CENEX SERVICE CENTER
HURON, SOUTH DAKOTA 57350
PRESIDENT
S.D. STATE CENEX MANAGER ASSN.

THE EFFECTS OF PAYMENT-IN-KIND (P.I.K.) PROGRAM ON SMALL AGRICULTURAL BUSINESS

Mr. Chairman, my name is Robert Rawstern, General Manager of the Cenex Service Center, Huron, South Dakota and President of the South Dakota State Cenex Managers Association.

The co-ops being represented here are owned and controlled by South Dakota Farmers.

The Cenex Managers Association is a state wide association representing 80 local co-ops doing business in South Dakota.

The local co-ops I represent are in the farm supply and marketing business handling fertilizer, chemicals, fuel, farm supplies and marketing grain in some cases.

I appreciate the opportunity to come before the committee this morning in order to discuss the present "P.I.K." Program as well as look at subsequent programs and implumentations policies. While our Association's have experienced some decline in farm supply sales this year with the implumentation of the P.I.K. Program, it continues to have widespread support. Our Association's recognizes that before we experience any appreciable increase in market prices, a substantial reduction in carryover stock must take place. Therefore, it is necessary for a strong acreage reduction program such as P.I.K..

We are always affected in South Dakota by changes in farm programs because South Dakota per capita is the most agricultural state in the nation.

Some of the problems we think can be avoided in the future deals with the implumentation of program and timing. With the implumentation of the P.I.K. Program, budget and projections were already set before the P.I.K. Program was around. This means the merchanise was in warehouses ready to service the acres based on last years sales and projections for the current year. This caused two problems in particular, one is the potential for tying up working capitol in carryover merchanise. The second which may even result in a greater impact on small business, is the lack of operating capitol and the cost of interest has caused price cutting in some areas in fertilizer and chemicals, because of the inability to afford to carryover merchanise it has caused dumping at cost or near cost, which has created a competative situation which has been detramental to all agri-businesses in these areas.

The cost of suddenly shutting down plants and later starting will cause production cost in these plants to increase far beyond what an orderly supply control program would create.

While we must have supply management programs we are concerned about the United States position in agricultural exports. The position of several other nations in there promotions of exports, the amount of foreign subsities, and the efforts in credit programs, financing and promotions that other exporting nations are using.

While we need supply management programs we need also to double our efforts in being creative and inovative in finding ways to increase our share of exports.

A full scale evaulation should be made of USDA's export programs, including their market development efforts. Over the last three years are major competitors in the agricultural export market have spent an average of 39¢ for every dollar of product exported. It is critical for USDA to make a stronger committment to these programs which creates new demands for U. S. Agricultural products over seas.

In summary, we believe that future agricultural policy should be on going and long range. They should protect producers in periods of low prices, work toward stable growth of expor markets, and supply and demand adjustors to keep the system from wide swing.

Much can be done to soften the impact on business and agriculture by decisions being made ahead of budget, ordering, and planting decisions.

Senator **Pressler**. Thank you very much. You are at the grassroots and on the firing line. We appreciate your being here. We will have some questions for you.

Al, we are glad to see you here. Do you have a statement?

STATEMENT OF AL BALDUS, MANAGER, GOVERNMENTAL AFFAIRS, CENEX, ST. PAUL, MINN.

Mr. **Baldus**. Thank you, Senator. Yes, I do, and I will summarize my statement.

I am Al Baldus, manager of governmental affairs at Cenex. Cenex is a regional organization; that is, we do business in 14 States. We are headquartered in St. Paul, but if you described our geographic location, it would probably be in South Dakota. We are a federated farm supply, meaning that the local cooperatives really own Cenex with about 1,500 local cooperatives and about 600,000 members.

I said I would summarize my testimony. Much of it follows what I know you are very aware of. However, I will follow the script on the summary, because that might take less time, if I do.

Many affiliated Cenex local cooperatives—locally owned retail farm suppliers—are being hit by PIK. Local co-ops in some corn belt areas are looking at declines in excess of 30 percent in seed, fertilizer, petroleum, and propane sales for 1983.

They have few options available for cutting costs. Fixed expenses—storage facilities, blending operations, fertilizer and chemical application equipment, and so forth—simply must be maintained no matter what happens to volume or margins.

Many of those local cooperatives may not survive. We are already seeing layoffs, facility sales, and mergers. In each case, these changes mean less service somewhere in the rural community.

And, that local cooperative, fighting for survival, may be the heart of the local community. For years farm input sales—feed, seed, fertilizer, ag chemicals, petroleum, and propane—have been the life's blood of the local cooperative. The margin on those products has enabled that co-op to carry less profitable, small volume lines—tools, paint, plumbing, heating and electrical supplies, auto accessories, work clothes, auto and truck repair, and maintenance services, and small appliances.

In short, should PIK force the closing of that local farm supplier, many communities will find themselves losing more than just the fertilizer plant or propane depot. They will be losing the local service station, convenience shop, and hardware store. They may well be losing a business that draws that farmer into town. And, you can bet if the farmer has to start buying his farm supplies 30 miles down the road, he will soon be doing his other shopping there as well.

In short, PIK represents a significant threat to all of Main Street, and it is a threat we can ill afford to ignore. So what can be done?

First, if PIK is to be extended, the announcement should be made this summer, so that farm suppliers—local, regional, and national—will be able to appropriately plan next year's inventory and production.

Second, financial institutions must be prepared to meet the urgent needs of farm suppliers suffering adverse PIK impact until product returns to normal levels. We need programs to insure reasonable interest rates on the outstanding business loans of those firms hit hardest by PIK. Similarly, the farm credit system needs to develop programs which recognize the unique fiscal problems resulting from PIK and which insure adequate credit to farm suppliers struggling with PIK's short-term impact.

Third, we need to develop new, more aggressive marketing programs—domestic and international—to move American agricultural products. The fact that we face a hungry world leads me to the assumption that we are not producing too much; we simply are not marketing enough. We must correct that situation, which sees American farmers idling acreage in the face of a hungry world.

And, finally, we need to see the development of farm programs that produce more predictability and stability in the marketplace, while also guaranteeing farmers a fair, equitable return on their investment of capital and labor. Accomplishment of this final goal, I believe, would spell a bright long-term future for agriculture and agribusiness.

Thank you, Senator, for your consideration.

[The prepared statement of Mr. Baldus follows:]

FARMERS UNION CENTRAL EXCHANGE. INC.
CENEX · Where the customer is the company
Mailing Address: Box 43089, St. Paul, Minn. 55164

STATEMENT OF:
MR. AL BALDUS
MANAGER, GOVERNMENTAL AFFAIRS
CENEX
ST. PAUL, MINNESOTA

THE EFFECT OF THE PAYMENT-IN-KIND PROGRAM

PRESENTED TO:
SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARM
SENATE SMALL BUSINESS COMMITTEE
THE HONORABLE LARRY PRESSLER, CHAIRMAN

WASHINGTON, D.C.
JUNE 9, 1983

AL BALDUS
TESTIMONY BEFORE CONGRESS

A FEW YEARS AGO BORIS MARSHALOV -- A RUSSIAN DRAMATIC COACH--VISITED CONGRESS DURING A PREARRANGED CULTURAL EXCHANGE PROGRAM. AFTER SPENDING SOME TIME WATCHING AMERICAN DEMOCRACY IN ACTION, MARSHALOV REMARKED THAT "CONGRESS IS SO STRANGE. A MAN GETS UP TO SPEAK AND SAYS NOTHING. NOBODY LISTENS, AND THEN EVERYBODY DISAGREES."

AS A FORMER CONGRESSMAN, I HAVE FELT THAT FRUSTRATION A FEW TIMES MYSELF. HOWEVER, I THINK WE CAN AVOID THAT DILEMMA TODAY. I AM CONFIDENT I HAVE SOMETHING TO SAY. AND SINCE WE ARE HERE AT YOUR INVITATION, I AM SURE YOU ARE GOING TO LISTEN. WITH THAT COMBINATION WE MAY EVEN BE ABLE TO COME TO SOME FORM OF AGREEMENT.

REACHING AN AGREEMENT MAY BE MADE A BIT EASIER BY THE FACT THAT I AM NOT HERE TODAY TO DISCUSS THE MERITS OF THE PAYMENT-IN-KIND PROGRAM; NOR TO PROMOTE OR OPPOSE ANY PARTICULAR PIECE OF LEGISLATION. I AM HERE TO TALK ABOUT THE IMPACT PIK IS HAVING ON AGRI-BUSINESS. I AM HERE TO INFORM, RATHER THAN TO INFLUENCE. HOWEVER, IF ANY OF THE COMMITTEE MEMBERS CHOOSE TO BE INFLUENCED BY MY REMARKS I WILL NOT BE OFFENDED.

AGRICULTURE AND AGRI-BUSINESS ARE CRITICAL TO THE NATIONAL ECONOMY. WHEN YOU COUPLE THE FACT THAT THEY ACCOUNT FOR NEARLY A THIRD OF THE GROSS NATIONAL PRODUCT AND ARE ONE OF FIVE EMPLOYMENT OPPORTUNITIES, WITH THE FACT THAT FARMERS MAKE UP ONLY 2.5 PERCENT OF THE POPULATION -- YOU CAN EASILY SEE THE IMPACT AGRI-BUSINESS HAS ON OUR NATIONAL BUSINESS CLIMATE, BALANCE OF TRADE AND EMPLOYMENT PICTURE.

YOU CAN ALSO PROJECT THE IMPACT A SLUMPING AGRI-BUSINESS CLIMATE CAN HAVE ON THE GRADUAL UPWARD MOMENTUM OUR ECONOMY SEEMS TO BE BUILDING. CLEARLY, AN ADVERSE AGRI-BUSINESS CLIMATE CAN POSE A SIGNIFICANT THREAT TO OVERALL ECONOMIC RECOVERY. FURTHER, THE PAYMENT-IN-KIND PROGRAM NOW POSES A SIGNIFICANT, IF SHORT TERM, THREAT TO THE AGRI-BUSINESS ECONOMY. THAT, IN TURN, HAS NOTABLE IMPLICATION FOR THE OVERALL ECONOMY, AND THE RURAL BUSINESS COMMUNITY.

I SEE A NUMBER OF REASONS FOR THAT SITUATION.

- AGRICULTURE AND AGRI-BUSINESS HAVE BEEN SUFFERING THROUGH A PROLONGED PRE-PIK SLUMP.
- AGRI-BUSINESS, PARTICULARLY FARM INPUT SUPPLIERS, DID NOT HAVE ADEQUATE TIME TO PLAN FOR PIK.
- THE FIGURES AVAILABLE EVEN FOR LAST SECOND INVENTORY AND PRODUCTION ADJUSTMENTS WERE INACCURATE.
- THE PRODUCT LINES MOST THREATENED BY PIK PROVIDE THE SUPPORT FOR OTHER, LOW VOLUME SUPPLIES THAT CONTRIBUTE TO THE RURAL QUALITY OF LIFE AND THE VITALITY OF THE RURAL BUSINESS COMMUNITY.

LET'S LOOK FIRST AT THE PRE-PIK STATUS OF AGRI-BUSINESS; PARTICULARLY THE FARM SUPPLY BUSINESS.

WE ALL KNOW FARM INCOME HAS DROPPED TO DEPRESSION ERA LEVELS OVER THE PAST THREE YEARS. THAT PROLONGED SLUMP HAS HAD A CORRESPONDING IMPACT ON THE AGRI-BUSINESS. IN 1982 ALONE THE FERTILIZER INDUSTRY REALIZED A 12 PERCENT SALES DECLINE; THE PETROLEUM INDUSTRY A 5 PERCENT DECLINE; AND THE FEED INDUSTRY A 5 PERCENT DECLINE; AND AG CHEMICAL SALES BARELY HELD EVEN. AND THIS WAS BEFORE PIK.

CENEX, IN FACT, WAS ONE OF THE FEW AG SUPPLIERS TO REPORT POSTIVE RESULTS IN 1982. CUSTOMER LOYALTY AND AGGRESSIVE MARKETING ENABLED CENEX TO ACHIEVE A RECORD 1.48 BILLION DOLLARS IN SALES. YET, DESPITE THAT RECORD, OUR EARNINGS DROPPED FROM 28 TO 15 MILLION DOLLARS. AND, CENEX WAS ONE OF THE FEW FARM SUPPLIERS TO COMPLETE 1982 BOOKS IN THE BLACK.

IN SHORT, AGRI-BUSINESS WAS FACING SOME TOUGH TIMES BEFORE PIK; MAKING PIK LOSSES EVEN LESS AFFORDABLE.

THE SECOND FACTOR IN OUR FORMULA FOR COMPUTING PIK'S IMPACT ON AGRI-BUSINESS IS TIMING.

CONSIDER THAT THIS YEAR'S SEED CORN CROP HAD TO BE IN THE GROUND LAST SPRING, OR THAT THE BULK OF THIS YEAR'S FERTILIZER HAD TO BE PROCESSED, PURCHASED AND IN PLACE BEFORE THE SPRING THAW. OR THAT PETROLEUM SUPPLIES HAD TO BE IN PLACE BEFORE THE THAW TO PREVENT SPOT OUTAGES.

COUPLE THAT WITH A MID-MARCH ANNOUNCEMENT OF PIK PARTICIPATION AND YOU CAN SEE HOW LITTLE OPPORTUNITY AGRI-BUSINESS HAD TO ADJUST ITS INVENTORIES AND PRODUCTION.

HERE I SHOULD ADD THAT EVEN THOSE WHOSE SUPPLIERS WERE ABLE TO ACCOMPLISH SOME INVENTORY AND PRODUCT LINE ADJUSTMENT HAD VERY LITTLE ACCURATE DATA TO WORK WITH.

THE USDA PROJECTED THAT 23 MILLION ACRES OF CROPLAND WOULD BE IDLED AS A RESULT OF PIK. THE FINAL TALLY -- 82 MILLION ACRES.

USDA'S EARLY PROJECTIONS ALSO POINTED TO A 3-4 PERCENT DECLINE IN FARM INPUT SALES. IN REALITY, WE CAN EXPECT INDUSTRY-WIDE DECLINES IN EXCESS OF 15 PERCENT IN FERTILIZER, AG CHEMICALS PETROLEUM, PROPANE -- IN NEARLY ALL FARM INPUTS IMPACTED BY PIK.

FURTHER, WE CAN EXPECT EVEN LARGER DOLLAR VOLUME DECLINES. LET'S LOOK AT FERTILIZER, PERHAPS THE MOST DIRECTLY AFFECTED INPUT. RIGHT NOW THE INDUSTRY IS LOOKING AT ABOUT A 14 PERCENT TONNAGE DECLINE. COUPLE THAT WITH THE FACT THAT FERTILIZER PRICES HAVE DROPPED $20 PER TON DUE TO A MARKET GLUT -- AND YOU ARE LOOKING AT DOLLAR VOLUMES DOWN IN EXCESS OF 20 PERCENT.

AND, REMEMBER THAT OVERSUPPLY OF FERTILIZER IS NOT THE RESULT OF MISMANAGEMENT. USDA WAS ABOUT 60 MILLION ACRES OFF IN PROJECTIONS FOR THIS YEAR. FARM SUPPLIERS HAD TO BE READY TO MEET THE INPUT DEMANDS FOR THAT ADDITIONAL ACREAGE -- DEMANDS THAT NEVER MATERIALIZED.

THE SAME SCENERIO HOLDS TRUE IN OTHER AREAS. I MENTIONED THAT THIS YEAR'S SEED CORN HAD TO BE IN THE GROUND LAST SPRING -- BEFORE SUPPLIERS COULD POSSIBLY HAVE ANTICIPATED PIK. AS A RESULT MOST SUPPLIERS PROJECTED INCREASED SEED CORN SALES, AND PLANTED OR ORDERED ACCORDINGLY. NOW WE'RE LOOKING AT ABOUT A 35 PERCENT DECLINE IN SEED CORN SALES (AS A RESULT OF PIK), AND AGAIN SUPPLIERS MUST DEAL WITH A TREMENDOUS SURPLUS OF PRODUCT.

THAT NOT ONLY CUTS MARGINS, BUT ALSO INFLICTS CONSIDERABLE STORAGE COSTS ON FARM SUPPLIERS -- LARGE AND SMALL.

THE POINT I AM TRYING TO MAKE IS THAT PIK PLAYED HAVOC WITH THE SUPPLY AND DEMAND SITUATION IN AGRI-BUSINESS -- CAUSING SEVERE FISCAL PROBLEMS FOR AN ALREADY BELEAGURED SEGMENT OF THE AMERICAN ECONOMY.

THE NUMBERS ARE SOMEWHAT STAGGERING. IN MINNESOTA ALONE, FARM CREDIT BANK ANALYSTS ESTIMATE FARM INPUT SALES WILL BE DOWN 417 MILLION DOLLARS.

WHAT MAY BE EVEN MORE UNFORTUNATE IS THAT PIK IS TAKING ITS HEAVIEST TOLL ON THE LOCAL FARM SUPPLIER -- ON THAT MAIN STREET, RURAL AMERICAN BUSINESSMAN WHO IS SO VITAL TO THE QUALITY OF LIFE IN RURAL AMERICA.

CENEX, AS A REGIONAL COOPERATIVE, SERVES SOME 1,600 LOCAL COOPERATIVES IN 14 STATES. AS A RESULT, WE HAVE THE VOLUME AND DIVERSITY OF GEOGRAPHY, PRODUCTS AND DEMAND NECESSARY TO ABSORB AND SURVIVE THE ADVERSE INPUT OF THE PIK PROGRAM.

DESPITE THESE ADVANTAGES PIK HAS FORCED A DIFFICULT "BELT-TIGHTENING" PROGRAM AT CENEX -- STAFF CUTBACKS; EXTENDED USE OF VEHICLES AND FACILITIES SCHEDULED FOR REPLACEMENT; AND A WIDE RANGE OF ORGANIZATIONAL COST CUTTING MEASURES.

MANY AFFILIATED CENEX LOCAL COOPERATIVES -- LOCALLY-OWNED RETAIL FARM SUPPLIERS -- ARE BEING HIT EVEN HARDER BY PIK.

LOCAL CO-OPS IN SOME CORN BELT AREAS. FOR EXAMPLE, ARE LOOKING AT DECLINES IN EXCESS OF 30 PERCENT IN SEED, FERTILIZER, PETROLEUM AND PROPANE SALES FOR 1983.

THEY HAVE FEW OPTIONS AVAILABLE FOR CUTTING COSTS. FIXED EXPENSES -- STORAGE FACILITIES, BLENDING OPERATIONS, FERTILIZER AND CHEMICAL APPLICATION EQUIPMENT, ETC., SIMPLY MUST BE MAINTAINED NO MATTER WHAT HAPPENS TO VOLUME OR MARGINS.

MANY OF THOSE LOCAL COOPERATIVES MAY NOT SURVIVE. WE ARE ALREADY SEEING LAY-OFFS, FACILITY SALES AND MERGERS. IN EACH CASE, THOSE CHANGES MEAN LESS SERVICE SOMEWHERE IN THE RURAL COMMUNITY.

AND, THAT LOCAL COOPERATIVE FIGHTING FOR SURVIVAL MAY BE THE HEART OF THE LOCAL COMMUNITY. YOU SEE, FOR YEARS FARM INPUT SALES -- FEED, SEED, FERTILIZER, AG CHEMICALS, PETROLEUM, AND PROPANE -- HAVE BEEN THE LIFE'S BLOOD OF THE LOCAL COOPERATIVE. THE MARGIN ON THOSE PRODUCTS HAS ENABLED THAT CO-OP TO CARRY LESS PROFITABLE, SMALL VOLUME, LINES -- TOOLS; PAINT; PLUMBING, HEATING AND ELECTRICAL SUPPLIES; AUTO ACCESSORIES; WORK CLOTHES; AUTO AND TRUCK REPAIR AND MAINTENANCE SERVICES; AND SMALL APPLIANCES.

IN SHORT, SHOULD PIK FORCE THE CLOSING OF THAT LOCAL FARM SUPPLIER MANY COMMUNITIES WILL FIND THEMSELVES LOSING MORE THAN JUST THE FERTILIZER PLANT OR PROPANE DEPOT-- THEY WILL BE LOSING THE LOCAL SERVICE STATION, CONVENIENCE SHOP AND HARDWARE STORE. THEY MAY WELL BE LOSING A BUSINESS THAT DRAWS THAT FARMER INTO TOWN. AND, YOU CAN BET IF THE FARMER HAS TO START BUYING HIS FARM SUPPLIES THIRTY MILES DOWN THE ROAD, HE WILL SOON BE DOING HIS OTHER SHOPPING THERE AS WELL.

IN SHORT, PIK REPRESENTS A SIGNIFICANT THREAT TO ALL OF MAIN STREET -- AND IT IS A THREAT WE CAN ILL AFFORD TO IGNORE.

SO, WHAT CAN BE DONE?

- FIRST, IF PIK IS TO BE EXTENDED THE ANNOUNCEMENT SHOULD BE MADE THIS SUMMER, SO THAT FARM SUPPLIERS -- LOCAL, REGIONAL AND NATIONAL -- WILL BE ABLE TO APPROPRIATELY PLAN NEXT YEAR'S INVENTORY AND PRODUCTION.
- SECOND, FINANCIAL INSTITUTIONS MUST BE PREPARED TO MEET THE URGENT NEEDS OF FARM SUPPLIERS SUFFERING ADVERSE PIK IMPACT -- UNTIL PRODUCTION RETURNS TO NORMAL LEVELS --

WE NEED PROGRAMS TO ENSURE REASONABLE INTEREST RATES ON THE OUTSTANDING BUSINESS LOANS OF THOSE FIRMS HIT HARDEST BY PIK. SIMILARLY, THE FARM CREDIT SYSTEM NEEDS TO DEVELOP PROGRAMS WHICH RECOGNIZE THE UNIQUE FISCAL PROBLEMS RESULTING FROM PIK AND WHICH ENSURE ADEQUATE CREDIT TO FARM SUPPLIERS STURGGLING WITH PIK'S SHORT TERM IMPACT.

* THIRD, WE NEED TO DEVELOP NEW, MORE AGGRESSIVE MARKETING PROGRAMS -- DOMESTIC AND INTERNATIONAL -- TO MOVE AMERICAN AGRICULTURAL PRODUCTS. THE FACT THAT WE FACE A HUNGRY WORLD; LEADS ME TO THE ASSUMPTION THAT WE ARE NOT PRODUCING TOO MUCH, WE SIMPLY ARE NOT MARKETING ENOUGH. WE MUST CORRECT THAT SITUATION, WHICH SEE AMERICAN FARMERS IDLING ACREAGE IN THE FACE OF A HUNGRY WORLD.

* AND, FINALLY, WE NEED TO SEE THE DEVELOPMENT OF FARM PROGRAMS THAT PRODUCE MORE PREDICTIBILITY AND STABILITY IN THE MARKETPLACE, WHILE ALSO GUARANTEEING FARMERS A FAIR, EQUITABLE RETURN ON THEIR INVESTMENT OF CAPITAL AND LABOR. ACCOMPLISHMENT OF THIS FINAL GOAL, I BELIEVE, WOULD SPELL A BRIGHT LONG TERM FUTURE FOR AGRICULTURE AND AGRIBUSINESS.

NOW, I THANK YOU FOR YOUR TIME AND CONSIDERATION, AND I WILL BE GLAD TO HOLD FOR QUESTIONS.

Senator PRESSLER. Thank you very much, Al Baldus, who is the manager of governmental affairs at Cenex in St. Paul.

Next I will call on Jerry Harris of the National Cotton Council in Lamesa, Tex.

STATEMENT OF JERRY HARRIS, COTTON GINNER AND PRODUCER, REPRESENTING THE NATIONAL COTTON COUNCIL

Mr. HARRIS. Mr. Chairman, my name is Jerry Harris, and I am a cotton ginner and producer from Lamesa, Tex. I also serve on the board of directors of the National Cotton Council. It is on their behalf that I appear today before you.

The National Cotton Council is the central organization of the U.S. raw cotton industry, representing cotton producers, ginners, merchants, warehousemen, cooperatives, cottonseed processors, and textile manufacturers from California to the Carolinas.

We appreciate very much this opportunity to express our views regarding the impact of the payment-in-kind, or PIK, acreage reduction program on related agribusinesses.

First, however, I want to say that we as an industry are fully supportive of the program. We view it as a necessary and positive effort to strengthen farm income by bringing the supply of cotton into better balance with demand.

At the same time, we recognize that the PIK program represents a difficult period of adjustment for many within agriculture, including our own industry. This is particularly true for agribusinesses such as cotton gins and cottonseed oil mills whose operations are directly related to crop production.

According to USDA, 95 percent of cotton's national acreage base was enrolled in the overall acreage reduction program. Participation in the PIK program involved more than 76 percent of the total acreage base.

Reflecting this extremely high level of program participation, USDA's planting intentions survey indicated cotton producers intend to plant only 8.1 million acres in 1983. This would be 49 percent below the national acreage base and down 28 percent from last year. Based on these figures, the Department has estimated cotton production this year will be approximately 8.8 million bales, down 3.2 million from 1982.

More recent estimates by industry analysts, however, indicate an even greater decline in cotton production, perhaps as much as another 600,000 bales due to adverse weather. This would mean cotton production this year could actually be as low as 8.2 million bales, nearly one-third below 1982.

Such a sharp reduction obviously would be felt by related agribusinesses. For cotton gins and cottonseed oil mills, who face a corresponding drop in business volume, it translates into a potential revenue loss of more than $400 million. In addition, their operating costs will likely be much higher due to their reduced volume. As a result, a number of them may find themselves in serious financial difficulty. This is particularly true for those located in areas where the crop has also been adversely affected by disastrous weather conditions.

Again, this underscores the fact that the PIK program, while necessary, represents a difficult period of adjustment for many within agriculture, including cotton. For this reason, we have and continue to strongly urge that every effort be made to avoid any major disruptions while it is being implemented.

One of our concerns is that because of reduced cash flow and higher operating costs resulting from PIK, many businesses—including cotton gins and cottonseed oil mills—may find it difficult to obtain adequate financing. In this regard, we believe it may be necessary to provide loan guarantees or other assistance during this interim period. By doing so, this will insure that these vitally important industry segments will be in place and able to process and handle the anticipated increase in production once the farm economy fully recovers.

Along this line, we were very much encouraged to learn that the Small Business Administration in a recent directive has indicated that it is adopting a policy of "reasonableness" with regard to its various lending programs in recognition of the adverse impact of PIK on agribusiness. We believe this to be extremely helpful, and we wish to commend them for taking such positive action.

At the same time, this is also why we were so surprised to see legislation sent to Congress and introduced upon request which in effect would eliminate all SBA agriculture loan programs. Not only is S. 1202 contrary to SBA's recently announced policy, but, if enacted, it would take away the only assistance now available to agribusinesses. These businesses, particularly cotton gins and cottonseed oil mills, are primarily small businesses by definition and should not be denied eligibility for SBA loans simply because they are engaged in agricultural processing or handling.

SBA's lending programs have and continue to provide needed financial assistance for many such businesses. And, with regard to cotton gins or cottonseed oil mills, we believe the record will show an excellent history of repayment of such loans.

Rather than eliminating such loan programs, we believe that the Small Business Administration and Farmers Home Administration may need additional flexibility in order to better meet the needs of agriculture. Our recommendations were included in earlier testimony before Congress, Mr. Chairman, and with your permission, I would like to have a copy included with my statement for the record today.

Again, Mr. Chairman, we appreciate this opportunity to appear before your subcommittee, and we are extremely grateful to you for your continued interest in agriculture.

[The prepared statement of Mr. Harris follows:]

STATEMENT OF JERRY HARRIS
ON BEHALF OF THE NATIONAL COTTON COUNCIL
BEFORE THE
SENATE COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARM
JUNE 9, 1983

My name is Jerry Harris and I am a cotton ginner and producer from Lamesa, Texas. I also serve on the Board of Directors of the National Cotton Council on whose behalf I appear today.

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More recent estimates by industry analysts, however, indicate an even greater decline in cotton production, perhaps as much as another 600,000 bales due to adverse weather in many areas of the Cotton Belt. This would mean cotton production this year could actually be as low as 8.2 million bales, nearly one-third below 1982.

Such a sharp reduction obviously will be felt by related agribusinesses. For cotton gins and cottonseed oil mills, who face a corresponding drop in business volume, it translates into a potential revenue loss of more than $400 million. In addition, their operating costs will likely be much higher due to their reduced volume. As a result, a number of them may find themselves in serious financial difficulty. This is particularly true for those located in areas where the crop has also been adversely affected by disastrous weather conditions.

Again, this underscores the fact that the PIK program, while necessary, represents a difficult period of adjustment for many within agriculture, including cotton. For this reason, we have and continue to strongly urge that every effort be made to avoid any major disruptions while it is being implemented.

One of our concerns is that because of reduced cash flow and higher operating costs resulting from PIK, many businesses - including cotton gins and cottonseed oil mills - may find it difficult to obtain adequate financing. In this regard, we believe it may be necessary to provide loan guarantees or other assistance during this interim period. By doing so, this will ensure that these vitally important industry segments will be in place and able to process and handle the anticipated increase in production once the farm economy fully recovers.

Along this line, we were very much encouraged to learn that the Small Business Administration (SBA) in a recent directive has indicated that it is adopting a policy of "reasonableness" with regard to its various lending programs in recognition of the adverse impact of PIK on agribusiness. We believe this to be extremely helpful and we wish to commend them for taking such positive action.

At the same time, this is also why we were so surprised to see legislation sent to Congress and introduced upon request which in effect would eliminate all SBA agriculture loan programs. Not only is S. 1202 contrary to SBA's recently announced policy, but if enacted it would take away the only assistance now available to agribusinesses. These businesses, particularly cotton gins and cottonseed oil mills, are primarily small businesses by definition and should not be denied eligibility for SBA loans simply because they are engaged in agricultural processing or handling.

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Again, Mr. Chairman, we appreciate this opportunity to appear before your Subcommittee and we are grateful for your continuing interest in agriculture.

TESTIMONY OF LLOYD CLINE, VICE PRESIDENT
NATIONAL COTTON COUNCIL
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON CONSERVATION AND CREDIT
FEBRUARY 14, 1983

My name is Lloyd Cline. I am a cotton producer from Lamesa, Texas and currently serve as Vice President of the National Cotton Council in whose behalf I appear.

The National Cotton Council is the central organization of the U.S. raw cotton industry, representing cotton producers, ginners, warehousemen, merchants, cooperatives, cottonseed processors and textile manufacturers from California to the Carolinas.

We appreciate very much the opportunity to share with you the cotton industry's concerns regarding the credit situation facing agriculture today. For many in agriculture, including cotton, the situation is critical. Larger than expected crops, combined with weak demand in the midst of a global recession, have resulted in mounting surpluses and continued low commodity prices.

Our own industry has been especially hard-hit by the effects of the recession. Last year, for example, U.S. mill consumption of cotton fell to a post World War II low of just 5.3 million bales, and is expected to improve only marginally this year. Exports are also down considerably this year, reflecting the twin effects of the recession and the relative strength of the dollar which has made it difficult for cotton to compete in world markets.

At the same time, due to record yields across the Belt, cotton production in 1982 was much greater than anticipated. The net result is that carryover stocks are expected to rise to 8.4 million bales or more at the end of this season -- the highest level since 1967, and three times higher than just two years ago.

Faced with low commodity prices and continued high production costs, many cotton producers today are under severe economic stress. Because of their reduced cash flow, the question of adequate financing has become a serious concern. This concern, however, is not limited to producers. Other segments of the cotton industry are also very much interested in the availability of credit.

In order to identify these needs and to develop specific recommendations, the National Cotton Council recently established a Special Task Force on Credit. The 11-member Task Force includes representatives from a broad cross-s[illegible]n of the cotton industry.

The Task Force met last week in conjunction with the National Cotton Council's annual meeting in Phoenix, Arizona. It adopted the following recommendation: "Strongly support efforts to strengthen the Farm Credit System, the Farmers Home Administration, the Small Business Administration, and other lenders to agriculture and agribusiness to ensure that the credit needs of the cotton industry are adequately met at lowest possible interest rates and the industry's vital infrastructure is maintained while supply is being adjusted through the federal payment-in-kind program."

As Chairman of the Special Task Force on Credit, I am pleased to say that this recommendation was also unanimously adopted by the Council's Board of Directors and its delegate body, representing all seven segments of the industry.

Mr. Chairman, the credit policy of the National Cotton Council reflects two very basic concerns. First is the need to provide adequate credit at reasonable terms and conditions for the production of food and fiber, and to help alleviate the financial stress many producers are now experiencing.

Second, any restructuring of credit policies and programs should include recognition of the critical importance of maintaining the industry's vital processing and handling segments while the payment-in-kind, or PIK, program is in effect.

We, of course, are strongly supportive of the PIK program as announced by the Administration. At the same time, however, we recognize that there may be some related industry segments, including cotton gins, warehouses, and cottonseed crushers, who will be adversely affected.

Clearly, there is an overwhelming need to bring cotton supplies into better balance with demand. During this difficult period of adjustment, however, every effort must be made to avoid major disruptions. We believe it may be necessary, therefore, to provide loan guarantees or other assistance to help these industry segments with their interim financing. In doing so, this will ensure that they will be in place and able to process and handle anticipated increased production once the farm economy fully recovers.

The Administration, we believe, is making every effort to meet the credit needs of agriculture. We have been encouraged by these efforts and the Secretary's actions in directing the Farmers Home Administration to work closely with local banks, Production Credit Associations, and other private lenders to assist producers.

If the Farmers Home Administration is to be able to continue to meet the needs of agriculture, however, additonal flexibility in its various loan programs may be necessary. In this regard, we respectfully recommend the following:

First, the existing $100,000 limit on FmHA operating loans and the $200,000 limit on guaranteed loans should be increased to reflect the size of today's farming operations and sharply higher production costs.

Second, eligibility for supplemental operating loans under the emergency disaster loan program should be extended for two additional years for borrowers who experienced a natural disaster after December 15, 1979. Under existing law, such borrowers are no longer eligible for these loans, while borrowers prior to December 15, 1979 continue to be eligible for two more years through fiscal year 1984. Providing fair and equal treatment for both sets of borrowers will not only remove this inequity, but greatly assist those producers who have suffered recent disasters such as the one experienced last year on the High Plains.

Third, the period of time over which FmHA may reschedule or reamortize existing loans should be extended from the current 7 years to possibly 15 years or longer. Not only will this increase FmHA's flexibility, it will better enable borrowers to repay existing loans as well as obtain additional financing.

Finally, through the business and industry (B&I) loan provisions of the Consolidated Farm and Rural Development Act, or other appropriate authority, additional provisions should be included to assist related agribusinesses, such as cotton gins, warehouses, and cottonseed crushers, with their interim financing needs during implementation of the payment-in-kind program in order to maintain the industry's vital infrastructure.

Mr. Chairman, many of these provisions which we have recommended are included in legislation recently introduced by you and Mr. Coleman, the ranking minority member of this Subcommittee, entitled the "Emergency Agricultural Credit Act of 1983."

We, of course, would like to take this opportunity to endorse those provisions as included in the Jones-Coleman bill, and to commend you for your continued strong leadership on behalf of agriculture.

Further, we would urge that this Subcommittee and the Congress move forward as rapidly as possible with the development of legislation that can be signed into law to ensure that agriculture's credit needs in 1983 will be met. This means legislation must reach the President's desk within the next 30 to 45 days. Otherwise, it may be too late for many producers to arrange financing for the 1983 crop.

Again, Mr. Chairman, we appreciate your leadership in this regard, and we look forward to continuing to work with you and your fine staff.

Senator PRESSLER. Thank you.

Senator Nunn has arrived. Do you have an opening statement?

Senator NUNN. I do, Mr. Chairman, but I have other hearings to attend. I will just put it in the record, with your permission.

Senator PRESSLER. It will be placed in the recording immediately following my opening statement.

Senator NUNN. I am concerned about this subject, though, and I am grateful to you for your leadership in having these hearings. I think they are very important. I will be following them closely. My staff has been here all morning and will continue to be here.

I think you have hit a very important subject, particularly as we and the Department of Agriculture, all of us, assess what this PIK program is going to do. There are good things about it, but there are some grave dangers, also. I think they are impending decisions in the next couple of months about whether to have another year of it, extending it, and so forth. Therefore, this is vitally important. I congratulate you on having these hearings.

Senator PRESSLER. Thank you very much.

Bob Rawstern, I have some questions about the Cenex managers and how this is going to affect sales.

You manage and your people sell on the main streets of the small towns throughout not only South Dakota, but the entire Nation and the agricultural region; is that right?

Mr. RAWSTERN. Right.

Senator PRESSLER. Now you mention in your statement—you talked about the stocks which you built up. How long in advance do you order your stocks, for example?

Mr. RAWSTERN. Chemicals, for example, are ordered in the latter part of July or first part of August.

Senator PRESSLER. For the year ahead?

Mr. RAWSTERN. For the year ahead, based on past history and current projections.

Senator PRESSLER. Now are the sales of your chemicals this year down substantially?

Mr. **Rawstern**. Yes, definitely the sales are down. We are the perfect example. We use bulk chemicals. We have ordered in our bulk chemicals for 1983, and we received them in September. Then the PIK program was announced in January, and naturally we were long on it because of less acres to use it on.

Basically, petroleum is not quite so bad. Fertilizer is usually put in in November or December, around that area.

Senator **Pressler**. What are your projections from a business point of view? Will PIK hurt you?

Mr. **Rawstern**. It is going to hurt some smaller companies, yes. Companies that are in bigger towns, no. Companies that may be a little more aggressive going out and getting new business and new sales, not so much. The smaller areas where they are locked in by a 15-mile or 20-mile radium, yes, definitely, they will feel it.

Senator **Pressler**. What kind of new business can they get?

Mr. **Rawstern**. New patrons.

Senator **Pressler**. New patrons?

Mr. **Rawstern**. Right. If you get new patrons, somebody else is going to hurt on the other end if you are taking business away from them.

Senator **Pressler**. The overall sales are down substantially?

Mr. **Rawstern**. In the State. It is a little early because we are not even quite done planting out there yet.

Senator **Pressler**. Al Baldus, how do you see this on a broader basis in the States of Minnesota and Wisconsin? What is happening? What about nationwide?

Mr. **Baldus**. I think, Mr. Chairman, you are aware that there has been a certain amount of ongoing erosion of the small town businesses. This will greatly accelerate that in some places. In other words, what might have happened in 4 or 5 years, I think may happen within 1 or 2 years. Where the smaller facility may not have gained the customer base to be economic, it is the smaller that get hurt the worst. Of course, that is those very small towns that are having trouble struggling, staying alive. That is the kind of dislocation I think we will see in the small communities. I think you will see more of that this next year as the results of this year are in.

Many of the employees—when the statement was announced about early January, they were almost into the season. They could not lay those people off then. It was better to hold them, but now that the season is over, you will see some employment changes in some of these subsequent decisions that have to be made. We will see more of that in the future than we have in the past.

Senator **Pressler**. What about employment? Let's take South Dakota first. Are you employing less people or hiring less new people? Will this hurt the job situation?

Mr. **Rawstern**. I do not see too much unemployment so far as existing people, but I think I have seen less part-time help helping in the busy season of the fertilizer season, and so on.

Senator **Pressler**. The situation, of course, is such that maybe Cenex has more built-in protection than some small business. I do not know. However, are you going to be able to absorb the problem if it continues, if we define it as a problem?

Mr. **Baldus**. Cenex as a regional cooperative, yes, will be able to absorb it. They are fairly strong financially.

Some other regional cooperatives are having to sell of substantial parts of their capital investments in order to adjust. Farmland I think is a case in point. They have had announcements recently. They are quite a lot larger than Cenex.

Senator **Pressler**. Yes, I have noticed some of those announcements. They have caused me some alarm in the sense that they do seem to be cutting back.

Mr. **Baldus**. They are faring better than International Harvester.

Senator **Pressler**. Of course, International Harvester I guess was in trouble before the PIK program.

Jerry Harris, I really had not focused on how much a reduction in cotton production there is. Those are really dramatic reduction figures, aren't they? That is probably as big a reduction as has occurred in any crop, isn't it?

Mr. **Harris**. Yes, sir. I believe it leads.

Senator **Pressler**. I tend to think of wheat and corn. I guess we all think of our own crops. I had not realized that.

What impact is that going to have on the agribusiness and small business in those towns where cotton is produced?

Mr. **Harris**. It is certainly having a dramatic effect. It is, I believe, going to eliminate a percentage of the businesses that are involved in first processing, especially the gins. We are estimating in the State of Texas that if this is a 2-year program and if financial assistance is not available, that it will eliminate 25 percent of the gins and maybe force the cottonseed crushing industry to turn to alternate sources of crush, which probably would be ill-pressed to return to crushing cottonseed after PIK.

Senator **Pressler**. Bob, what are you doing in anticipation of next year? You say you must order your chemicals by July. We have asked the Secretary to announce the program by July or August, but that may not happen. What if the new program is not announced until December? What kind of position does that put you in?

Mr. **Rawstern**. I do not believe we are going to see products ordered, based on maybe no PIK program versus a PIK program. This causes another problem. By early ordering, we get discounts that we can pass on to our farmer patrons, and I am sure that possibly a lot of this merchandise will be sat on until whatever farm program is announced. This, then, could create a problem with delivery, getting to the field on time, and so forth.

Senator **Pressler**. In the long run, do you believe PIK will help your business by improving the agricultural economy?

Mr. **Rawstern**. I guess I cannot really answer that one for you right now. I believe we are just too early into it to really know.

Senator **Pressler**. OK. Al, do you have some wisdom to share?

Mr. **Baldus**. I think that PIK or something like it had to occur. The fact is we have too many resources. We can produce too much. There had to be some sort of a supply-and-demand management system put in place. PIK was available, and I think it was a correct thing to do at the time.

The question now is, is PIK a long-term program? I think everyone assumes that it is not. I guess it is up to you folks to develop and work with the other Senators and Members of Congress and the administration to develop something that includes supply management and stabilizes. This has been very destabilizing, necessary but destabilizing. Therefore, it hurts the economy a great deal.

To replace it with something that can be long term and stable is certainly necessary.

Senator **Pressler**. Jerry, do you have any thoughts on that?

Mr. **Harris**. Yes, Mr. Chairman. We believe that it was not only necessary and positive, but we believe that all of us who service agriculture in ag-related industries must have a strong producer segment in order for us to have any chance of realizing profits. Therefore, we feel that every effort must be made, including PIK, to restore producers' or farmers' profitability, and then we will be able to once more have an opportunity to make profits.

However, again, if proper steps are not taken to maintain our industry's processing and handling segments of the industry, it is not going to do our producers any good if we are not there when the time comes that these profitability opportunities are there.

Senator **Pressler**. There is one other question that I would address to Bob Rawstern.

Do you feel that Government loan programs currently in existence are sufficient to help small businesses in South Dakota?

Mr. **Rawstern**. In most cases I feel that they are. Possibly due to the PIK program, there may be more of them that are going to require these loans. I would hope that the interest rates would be reasonable.

A lot of the businesses right now are paying a great sum of their bottom line out in interest money. Anything that would help that figure would certainly help the small businesses of South Dakota.

Senator **Pressler**. I know that the House has passed legislation earmarking loan funds for PIK-impacted businesses, and we have noted that. That has not occurred yet in the Senate, but it is something that I am very interested in discussing.

Do you have any questions?

Senator **Nunn**. Just a couple.

Do you grow soybeans in South Dakota of an appreciable number?

Mr. **Rawstern**. Not that I am familiar with.

Senator **Nunn**. How about in Texas?

Mr. **Harris**. No, sir.

Senator **Nunn**. Then I will direct this question later.

The second question is this: You hear allegations about farmers taking the least productive land out of production, not an allegation of wrongdoing but human nature. I think that is human nature. Everybody will take the least productive land out.

Do you see that happening in your area, where you really are having the most productive land remain in and the least remain out, and, therefore the number of acres being reduced is not necessarily indicative of the reduced commensurate reduction in production?

Mr. Harris?

Mr. HARRIS. Yes, sir, I assure you that this is a fact. Any prudent businessman, which most of our farmers that are left are, certainly, when they have the opportunity would reduce their acreage on their lowest production first. Therefore, your production level does not always diminish at the same percentage level as the percentage of acreage reduction.

Senator NUNN. What is the percentage of acreage reduction in cotton that you testified to? You say one-third reduction in acres?

Mr. HARRIS. Approximately, with the weather damage that has occurred, we are estimating an industry estimate at this time of one-third of the production of 1982.

Senator NUNN. In other words, a two-thirds reduction from the 1982 level in production?

Mr. HARRIS. No, sir, one-third in production.

Senator NUNN. One-third less than 1982 in production?

Mr. HARRIS. Yes, sir.

Senator NUNN. What is the number of acres that have been taken out, in terms of percentage of 1982 acres? I am trying to get a comparable figure to that one-third production.

Mr. HARRIS. I believe 76 percent. Excuse me. We will be at 49 percent of the national acreage base, but we will only be down 28 percent from last year. Now this is USDA's figures.

Senator NUNN. In acres?

Mr. HARRIS. In acres.

Senator NUNN. Is that just Texas or is that all——

Mr. HARRIS. No, sir, that's all acres.

Senator NUNN. All cotton acres?

Mr. HARRIS. Yes, sir, all cotton acres.

Senator NUNN. You are saying you are anticipating about a one-third reduction in production from a 28-percent reduction in acres?

Mr. HARRIS. No, sir, I believe that we will be down 28 percent from last year, but there was some reduction last year, also.

Senator NUNN. I am trying to compare it to last year, though. I am trying to compare two things for last year. One is how much less production and the other is how much less acreage.

Mr. HARRIS. OK. I see what you are doing. We will be down about 28 percent, and we will be approximately a third of production.

Senator NUNN. Twenty-eight percent in acres and a third in production?

Mr. HARRIS. Yes, sir.

Senator NUNN. Are you anticipating more reduction in production than you are in acreage?

Mr. HARRIS. Yes, sir.

Senator NUNN. Because of the weather?

Mr. HARRIS. Because of adverse weather.

Those figures are not USDA. They are industry.

Senator NUNN. Do you have in your head, if you took the adverse weather out of that, if you had not had that adverse weather, do you have a figure in your head about how much production would have been compared to a 28-percent reduction in acres?

Mr. HARRIS. Yes, sir. These are my figures now. We had a scale figured out, in anticipation of a PIK, trying to work out what the effect would be.

The first 10-percent reduction in acreage we felt would only reduce production probably about one-third, because of the lower productive acres. However, as that rate climbs to 20 percent, the percentage would climb higher. When you approach 50-percent reduction, you will probably get about a 35-percent reduction in production.

Senator **Nunn**. Do you have any similar figures in mind as far as your crops, wheat and so forth, in South Dakota?

Mr. **Rawstern**. Not really, but the reduction in the acres, if I am right, I believe you can have a 5-acre, a minimum 5 acres that you can blot out to take bad land out of production as far as the PIK program is concerned.

I believe that the acres that are left are more productive acres. I do believe you are seeing them managed much better than they have been in the past, with more fertilizer being put on.

However, with the acres of reduction—I guess I can speak from the county that I live in, and that is the main thing that I have had interest in, about 150,000 acres of wheat and corn—the percentage of the chemicals and fertilizer used on the acres that they do have in production maybe would increase 10 to 15 percent, but then you have a negative completely on the acres that there is nothing planted on as far as PIK is concerned.

Senator **Nunn**. Is that spring wheat?

Mr. **Rawstern**. Spring wheat. A little winter wheat in my area. South Dakota does have winter wheat.

Senator **Nunn**. Did many people plow up actually the winter wheat?

Mr. **Rawstern**. No, sir, not very much.

Senator **Nunn**. It was mostly spring wheat that was taken out?

Mr. **Rawstern**. Right.

Senator **Nunn**. Thank you, Mr. Chairman.

Senator **Pressler**. Thank you, Senator Nunn.

Let me say that I am going to be meeting with Secretary of Agriculture Block in the near future, as many other Senators are. The thoughts expressed in this hearing will be used to advise him on the next year's PIK program and what impact it is having across the board.

Our next panel represents the Fertilizer Institute: Mr. Charles Crawford, president, Green Prairie Co., Inc., in Brookston, Ind.; Mr. Barney A. Tucker, chairman, Top Yield Industries, Inc., Lexington, Ky.; and Mr. Alvin McQuinn, chief executive officer, Ag-Chem Equipment Co., Inc., Minneapolis, Minn.

Then we will have another panel following this. I will call on Charles Crawford first.

STATEMENT OF CHARLES F. CRAWFORD, PRESIDENT, GREEN PRAIRIE CO., INC., BROOKSTON, IND.

Mr. **Crawford**. Thank you, Senator.

My name is Charles Crawford. I am president and also general manager of Green Prairie Co., which is a small, independent agricultural firm serving a local area, about 100 farmers, that we have been serving for the past 18 years. We blend fertilizer, sell chemicals, custom application, and soil service.

In 1974 our firm was destroyed in a tornado that was of such magnitude that our area was declared a national disaster. In that national disaster we obtained from the Small Business Administration a disaster loan, which I would like to thank the present members of the committee and past members of the committee, to tell you that I know how important this type of thing can be in a disaster-type situation.

On hindsight, the tornado had some certain advantages over PIK. No. 1, when it was over, it was over. No. 2, we had insurance. No. 3, we combined the insurance with the money we got from the Small Business Administration, which allowed us to rebuild the plant that had been 84 percent restored and carry it on.

In fact, we were successful enough that, believe it or not, we paid off the SBA loan before it was due. So thank you for that.

Now PIK has been something else. It seems to go on and on for us.

Second, there obviously is no upside as far as we can see. Sure, somebody can say it is good for you in the long run, but if you are getting kicked in the short run, that is not adequate.

As chairman of the Retail Committee in the Fertilizer Institute, I am quite certain that if you check the figures—I would suggest Dr. Dave Downey's figures at Purdue—on fertilizer businesses, and take out the amount of sales that we think are going to be, that it maybe does not look too good. There are some that are not going to be with us on the short term.

The Department of Agriculture says that our input side of agriculture amounts to about 20 percent of the work force, the total work force in the United States. We in small agribusiness are not used to laying people off. This last year we have had to lay off over 50 percent of our people. We are going to have to lay off further. This hurts.

I do not feel that anyone who designed PIK designed it in the way that it was administered with any poor thoughts in mind for us, but let me tell you just a little bit, clarify a little bit more what happened to us.

The timing, as we allude to—we have talked about a need for early timing. The timing on this was very, very bad. Sixty-five percent of our year was completed. Our year starts in the fall and goes in the spring. It was completed when the Department of Agriculture told us the amount of acreage that they were going to take out, which was approximately March 22. Wow, what timing. It was May 10 before we were giving the figure on how much corn production this was going to take out from the perspective plantings, which we were told was 28. First, there was poor timing.

Second, from our standpoint, there were very poor projections. We have learned to respect the projections of the Department of Agriculture and have used them as a tool for our planning and for sitting down with bankers on borrowing money, and so forth.

What happened to us this year? We started out in the fall being told that the new program of the 20 percent of set-aside would amount to about 3.5 percent reduction in corn. I speak of corn because in our area that is 90 percent of the fertilizer business. Therefore, we made adjustments on that information.

We moved into January, and what I am talking about here—I have changed the figures on plantings because that is what I am really interested in, not in harvested acres, because I am in the fertilizer business.

We were told that the plantings would be down a total of 14.5 percent. This was tough. This was hard to take. We already had our fertilizers in for spring, and so forth, but we thought, well, we will cope with it. We will lose money, but we will surely survive.

On May 10, as I said before, we were finally told, after the bomb had dropped on the announcement that up to 42 percent had been taken in, we are told that 28 percent was taken out.

Our situation is that it was 35 percent in our area cutdown in corn production, in corn acres.

The hardest thing that I feel about this is that in January when we were told about PIK and what was going to happen, we were told that it would amount to this 14.5 percent less planted acres. We were told that the situation would be that they would use their discretion and determining whether they would take out whole base bids. The signal to us was that they were going to use their discretion. They didn't. They took out 42 percent in our area as far as corn, and then acreage--and then, of course, it is anyone's guess. My guess is that that all goes back to about 35 percent from the other side of the situation.

I wonder where that discretion was. If that was the plan, why didn't they tell us that? The factor from start out of the year at 3.5 to, for us, 35 percent is a factor of 10 in error.

OK. What do I think should be done? Short term, I agree with you, Senator, that there should be an August 15 announcement for feed grains, for corn; hopefully, an earlier announcement for wheat.

Second, I think that if a program is developed for next year of any type of set-aside situation, we should urge the Department of Agriculture to keep their program so that it has not more than a 5-percent parameter. I am not going to suggest how they write it, but if, in their wisdom, they want to take up 20 percent, we will have some safeguard they are only going to take out 25 percent, or whatever the figure is.

Third, it is not easy for an independent businessman to ask for something, but I feel that many of our firms are going to need disaster loans that really may be similar to those in the tornado situation.

On the long term, and finally, I think that really if we as a country look at why our exports are going down, we should look in the mirror. We are doing it to ourselves. We are shooting ourselves in the feet, so to speak. We continue to do it.

Some even talk at various times over the years that we should use food as a weapon to influence people to come to our will. I think if we look in the mirror, we would find that maybe we have not been the most responsible marketer of grain, and I think this is developing to the situation that we may be going down a road where we will become more and more a supplier of last resort.

Thank you very much. I have also submitted my paper. Thank you for listening.

[The prepared statement of Mr. Crawford follows:]

Statement of

Charles F. Crawford
President
Green Prairie Co., Inc.
R.R.#1, Box 210
Brookston, Indiana 47923

STATEMENT OF IMPACT OF PIK ON INPUT SUPPLIERS OF FERTILIZER

My name is Charles Crawford. I'm president of Green Prairie Co.; a small independent local supplier of fertilizers, chemicals, soil testing and custom application. For the last 18 years we have served about 100 farmers in our rural area known as Round Grove, in White County, Indiana.

WHEN RIDING BIKES, SAILING BOATS AND FLYING PLANES, ABRUPT STEERING CAUSES CRASHES

Remember when you were first learning to ride a bike? One of the first things I learned was that if I turned too abruptly I usually crashed. In my mind, PIK was like being a passenger on a bike when the driver made a too abrupt turn. And we crashed.

TORNADOES AND PIK

In April of 1974, tornadoes swept through Indiana and Ohio that destroyed so much property that a national disaster was declared. SBA stepped in and provided long-term loans to many of the victims.

Our business was 85% destroyed, and we obtained one of these loans; without which we might not have been able to continue our business.

So you see I know from personal experience the value of this committee's work. At this time, I would like to thank you and past members for the help given to our business and to our community.

In retrospect, the tornado had several positive aspects:

1. When it was over - it was over.
2. We had insurance to cover a large part of our loss.
3. We obtained an SBA disaster loan which, along with the insurance money, allowed us to rebuild a modern plant. We later repaid the SBA in full.

NOW LET US LOOK AT PIK

1. The bad news seems to go on and on.
2. What about the future? Can we make long term plans? The government waited until March of '83 before we knew the effects of this program. Will this happen again next year?

VALUE OF THE FERTILIZER DEALER

We, like other fertilizer dealers, are an important link in the chain of American Agriculture.

The USDA stated in the foreword to the 1982 Yearbook of Agriculture that "The Agricultural system employs 23% of the U.S. labor force, yet only 3% of the labor force is directly engaged in farming." This means that 86% of the work force employed in the total agricultural system falls within the agricultural support industries.

We work for the farmer and provide him with services such as testing soil, making recommendations, providing supplies, and doing custom application, plus a list of products and services that would be too lengthy to report.

This team effort between the farmer and agri-business, born out of the free enterprise system, has helped make farming more efficient. In 1950, one farmer produced enough food for 15.5 people. Today that figure is placed at 78 people! (Figure 1) The efficiency of modern farmers has increased nearly five fold in 33 years.

THE FINANCIAL LIQUIDITY OF THE INPUT SUPPLIER IS EQUALLY AS IMPORTANT AS THE FINANCIAL LIQUIDITY OF THE FARMER

PIK was designed to maintain the financial health of our all-important American farmer. I have great hope that this will occur. In fact, unless the weather straightens up, thus providing good growing conditions, we may not need another program next year. As to the input supplier, many may not survive until next year, without help, because of the effects of PIK.

POOR TIMING

In order to provide products and services needed by our customers, we have to operate our business on a 12 month basis, even though our principal work period consists of two 60 day seasons - one in the fall and the other in the spring. Our year starts on the first day of August. By the time the Department of Agriculture got around to giving us the final word on March 22nd, 65% of our year was already completed. It was too late for us to make effective adjustments in our overhead and inventories.

POOR PROJECTIONS WITH ABRUPT CHANGES

We started out our year on August 1, 1982, after going through a year of decreased sales, off 10% due to the feed grain program.

Keeping that in mind, look at what has happened to us, so far, this year:

> Fall 1982 - The USDA told us we were to be faced with a voluntary set-aside of 20%. We estimated that not all farmers would participate. However, the program was more attractive to the farmer than last year's, so we projected about a 3½% decrease in sales. We projected corn-acres-planted as down about 3½% from 82 million to 79.9 million.

Many farmers, due to uncertainty, low prices, tax planning, etc., decided not to apply fertilizer in the fall. The result: fall sales were down 40%. But at this point we were still optimistic, and projected that the farmers would start buying after the first of the year.

First 11 days in January, 1983 - Orders poured in. We were busy spreading on every fit day.

January 11, 1983 - PIK was announced. All activity stopped. The effect of PIK was estimated by USDA to be a reduction of 17.8% in acres to be harvested, which we translated to be a 14½% reduction in planted acres from last year. Our main concern was with corn. We are in a corn area, plus about 40% of the fertilizer used nationwide is used on corn, so we were following the USDA corn and sorghum figures.
We made all the adjustments possible in personnel and inventory. Our projections were, at that time, that we would lose money, but would survive. We projected from the USDA data that there would be about 70 million acres planted and 60 million harvested.

We were further heartened because the USDA projected that "expenditures for major farm inputs may decline only about 3-4%, relative to estimates before the PIK program."

March 11, 1983 - With the sign-up completed, most of us in the fertilizer business were worried, because we were almost certain the sign-up was much heavier than projected. However, we have learned to expect good figures from the USDA, so some of us thought surely, they know what they are doing. Surely they would not have projected 70,000 planted acres and then take whole base bids, which would mean less acres yet.

March 18, 1983 - Today the driver of the bike made an abrupt turn that, for us, would result in a crash. The USDA accepted whole base bids and up to 45% of the corn acres were to be set aside.

May 10, 1983 - On May 10th, the prospective plantings for corn were pegged at 58.8 million acres by the USDA, which is roughly a 28% reduction from last year. In the fall they said 3½%, on January 11th 14½%, on May 10th 28%. In my area we think it is 35%. As you can see, 35% is ten times greater than the first projection of 3.5%. On top of that sales look to be down in our area by about 35%; not the 3 to 4% projected on January 11th by USDA. (Figure 2)

WHAT IS NEEDED NOW

1. Announce the farm program by no later than August 15, 1983. Allow input suppliers and farmers to plan ahead.

2. Low cost loans will be needed for working capital. For many farm input dealers PIK has been a disaster, because of the actions of USDA, which are equal to a tornado, flood or earthquake. For many to survive, I expect loans will be needed to provide working capital in the 200,000 to 500,000 dollar range.

3. If the USDA determines we need a government program next year, that program should have a built-in control to keep the range of acreage reduction within a 5% perimeter.

LONG TERM NEEDS

The American farmer is the envy of the World. Agriculture is our biggest business. It is one thing we do better than any other country. We need an effective world sales program because:

1. It is good business.

2. Food promotes peace because well-fed people are less apt to be war-like.

3. Our ability to produce is growing. In the last 33 years for example, corn yields have gone from 38 bushels to 114. That's three times greater. (Figure 3) Our high-goal oriented farmers will double the 114 bushels per acre average in the next 10 to 20 years.

4. We have competition in corn exporting and we are losing ground. I'm sure you have read the two-part front page story in the May 19th and 20th issues of the Wall Street Journal, titled "Lost Exports". If you haven't read these two articles, I recommend them to you. (Figures 4 & 5)

LET'S TAKE A HARD LOOK IN THE MIRROR

During a period covering about the last twenty years, while both political parties have been in power, the USA has acted in ways that should not be part of a sound world marketing program. As an imaginary parallel, imagine what would happen to our small company if:

1. We allowed our employees to refuse to ship our products if they did not agree with the political beliefs of some of our customers.

2. It was a policy of management to make a list of customers' human rights performance within their (the customers) families. Then to print this list in the local papers.

3. We gave in to our truckers and made it a policy that farmers could not use the truckers of their choice on 100% of their purchases.

4. We printed a most-favored customer list.

5. We allowed our sales and production people to publicly talk of using our chief product as a weapon to force our customers

to behave in a manner that suited us.

6. When we strongly disagreed with the personal behavior of our customers, we broke existing contracts with customers who pay their bills and called this practice an embargo; while at the same time doing business with them with other products and services.

Sound familiar? You bet it does.

TIME FOR A CHANGE

We need to make every effort to remove the idea of food being a weapon that can be used to make others bend to our will.

FIGURE 1

YEAR	PERSONS SUPPLIED FOOD FIBER BY ONE FARM WORKER	FARM OUTPUT PER HOUR (1967=100)
1950	15.5	34
1960	25.8	65
1970	47.1	115
1980	78	194

*Source USDA

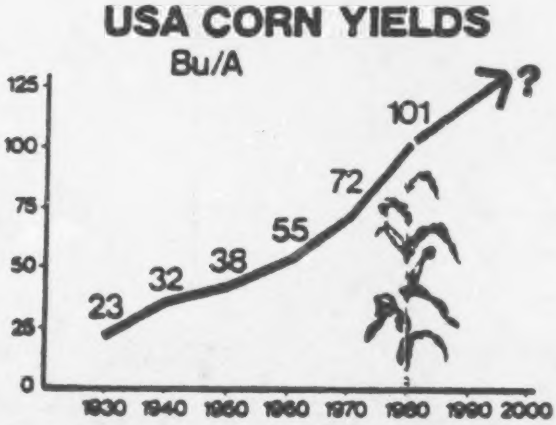
FIGURE 2

TRYING TO FOLLOW USDA CORN PROJECTIONS

	Acres Harvested	Acres Planted
LAST YEAR	72.8	81.9
PROJECTED FALL 1982	69.0	79.0*
PROJECTED JANUARY 11, 1983	60.0	70.0*
PROJECTED MAY 13, 1983	48.8*	58.8

*Derived figures assuming 10 million acres not being harvested for grain.

FIGURE 3



USA average corn yields have dramatically increased in the last 50 years – in fact they have almost doubled each 20 years! New varieties, pest control and new fertilizer technology have caused these amazing increases - now this new technology is being used on wheat production.

FIGURE 4
PAGE 1 of 2

THE WALL STREET JOURNAL, Thursday, May 19, 1983

Lost Exports

Long U.S. Dominance In World Grain Trade Is Slowly Diminishing

Other Nations Lower Prices, Seize on Political Events; PIK Program May Hurt

But Turnaround Is Possible

By SUE SHELLENBARGER
And JEFFREY H. BIRNBAUM
Staff Reporters of THE WALL STREET JOURNAL

The last of several grain boats bound for China steamed out of the port of New Orleans recently with its hull one-quarter empty.

Normally, grain purchasers avoid such "dead freight," or unused shipping capacity. Operating a ship costs too much to let it sail without a full load.

But the Chinese had picked up the last of the U.S. grain they had ordered six months earlier, and they didn't want any more. Last year at this time, they had ordered more than $300 million in U.S. wheat. But now they have found cheaper places to shop, in Argentina and France. So China, the U.S.'s biggest wheat customer last year, isn't expected to buy any U.S. wheat for delivery this summer.

This is the first of two articles on U.S. farm exports.

The China syndrome is being repeated with disturbing frequency these days. By cutting prices and taking advantage of political discord between the U.S. and some of its customers, other grain-exporting nations are muscling in on the traditional U.S. dominance in the world's farm trade. The U.S. share of world trade in grains, its biggest farm export by far, has fallen to about 53% this year from a high of 60% in 1980. The U.S. faces more rough sledding in years to come.

Rivals 'Getting Smart'

"Our competitors are getting smart," says John Urbanchuk, chief agricultural economist at Wharton Econometric Forecasting Associates. "World grain trade is changing dynamically. The U.S. is going to face increased competition for some time to come."

The slippage hurts the whole economy. Agriculture is the nation's biggest business, and farm products are the nation's biggest export category, accounting for 18% of all U.S. exports. (Of last year's $39.1 billion in farm exports, the State Department estimates, each $1 billion provided 30,000 jobs off the farm.)

And agriculture, more than many industries, is hooked on exports. During the 1970s, farm exports nearly tripled until U.S. farmers sold abroad about 40% of what they produced. "Exports govern the health of the whole agricultural system," says Charles M. Harper, chairman and chief executive officer of ConAgra Inc. of Omaha, a food processor and major grain merchant.

But rising competition now is forcing a rapid withdrawal, and exports are expected to dip again this year, causing the first three-year decline since the Depression. The trend means that "increases in farm income are going to be much more difficult to achieve over the next five to 10 years than in the past," Mr. Urbanchuk says. The export slowdown, along with bumper harvests, has created huge surpluses. To combat them, the U.S. has proposed its most ambitious farm program ever, called payment-in-kind, or PIK.

Could Encourage Competition

Under the program, farmers will be paid in cash and farm goods for idling as much as half their land. This is expected to reduce surpluses by cutting farm output sharply; that, in turn, should raise prices and fatten farmers' profits. At the same time, though, the move is likely to encourage even more competition with the U.S. in world farm trade. That's because higher grain prices in the U.S. tend to raise grain prices everywhere and thus are incentives for other nations to increase their output. Thus, while PIK has brightened U.S. farmers' income prospects this year, rising export competition could hurt them over the longer term.

The U.S. could regain its advantage, of course, if crop failures transform the current world grain surplus into a shortage. The U.S., as the world's largest grain exporter with a big storage system, holds sway over world markets at such times. Also, a world economic recovery could raise importers' purchasing power and demand. The current stagnation of world grain trade belies many nations' growing need for grain. The United Nations Food and Agriculture Organization says 26 countries are seriously short of it.

But many of the changes in the world trade arena are likely to endure—the increased capability of competitors, for example, and U.S.-Soviet differences. Even the U.S.'s own farm-price supports are a growing cause of the export decline, experts say.

High Rice

U.S. programs keep U.S. rice prices so high, for example, that importers turn to other sources. The key element is the U.S. "loan rate"—the amount the government will lend a farmer against his crop if free-market prices are too low.

The loan rate for rice is $179.45 a metric ton. That means that after shipping and other costs, U.S. rice for export at the Gulf of Mexico costs $400 a ton, or 59% more than the $250-a-ton price offered by Thailand, another major rice exporter. As a result, U.S. rice exports are expected to fall 25% this year, while U.S rice stockpiles nearly double.

When price supports get too high, they prevent exports altogether. U.S. support prices for some dairy products, at twice the world prices, keep U.S. dairy farmers from competing on world markets and even encourage imports.

The steady increases in loan rates for other farm commodities in recent years, such as wheat, threaten to lock farmers out of those crop markets, too, experts say. "We've been trying like hell to get the price up," says Bernard Steinweg, senior vice president of Continental Grain Co., a major exporter. "Then we tell these countries, 'We're going to defend our markets.' I'm scratching my head. If I wanted to keep my share compared to Cargill (another major exporter), I wouldn't be inclined to raise my price."

"Our policies are hindering exports across the board, even in grain," where U.S. farming and grain-handling efficiencies usually give it an advantage, says Fred H. Sanderson, senior fellow at Resources for the Future, a Washington think tank. "Our prices are high enough for our competitors to shoot under them and make some money, too."

Those competitors are proving themselves increasingly capable. Even though two major grain-exporting nations, Australia and South Africa, were crippled by drought this year, others have been on a selling blitz, cutting prices, offering special credit terms and locking up future markets with long-term grain trade treaties. Canada has seven such agreements covering more than 60% of its crop; Argentina has eight, Australia nine.

"The U.S. is meeting stiff, stiff competition," says Ernest Poole, vice president for grain at Agri Industries Inc., a Des Moines farmer cooperative. Often, competitors take advantage of Washington's international disputes, supplying grain to Cuba, Iran or the Soviet Union. One U.S. grain-company executive says of his travels to Moscow: "Every time we talk to them, we hear, 'You aren't a reliable supplier.' They tell that to business people and export companies every chance they get." Since the 1980 grain embargo, the U.S. share of Soviet grain imports has fallen to 20% from 70%.

Administration Acts

The Reagan administration is trying to raise exports. It increased direct credit and loan guarantees for farm-import customers by 82%, to $5.1 billion. It used a new low-interest "blended credit" program to win business with Pakistan, Yemen and Morocco and subsidized a recent flour sale to Egypt. The administration also raised its contribution to private export-promotion groups by 30% and is seeking another, 21% increase next year. After a long internal debate, it offered to negotiate a new long-term grain trade agreement with the Soviets, who have accepted the offer.

FIGURE 4
PAGE 2 of 2

But other nations have been just as aggressive in pursuit of farm trade. Canada's government wheat board offers guaranteed credit lines to food importers at rates one-quarter of a percentage point below the Canadian prime rate. It recently snared a $120 million wheat and barley sale to East Germany, a big U.S. customer. Pillsbury Co., the Minneapolis food processor and grain merchant, estimates that the U.S.'s share of grain imports by Eastern European nations fell to 51% this year from 74% last year. The Canadians' $1 billion in credit guarantees to the Soviet Union have helped win Soviet business, too.

The European Community has led a wave of price-cutting with its export subsidies. In April, an EC subsidy of $82 a ton brought the price of French wheat for export down to $128 a ton, below the $135 to $138-a-ton price tag then on U.S. wheat. In February, the EC began offering an extra subsidy on wheat to China, and it has won much of the business there that the U.S. has lost. U.S. officials expect French wheat sales to China to rise nineteenfold this year, sales to the Soviets fourfold. The French also recently won a major wheat sale to Brazil, a nation that usually buys most of its wheat from the U.S.

To compete, Argentina cut its prices to the bone. After a mammoth wheat harvest this year, that nation had "mountains of wheat lying in the streets," says Alan Maurer, an Agriculture Department economist. Argentine export concerns cut wheat prices $15 to $20 a ton below U.S. prices. The Chinese, who are adroit price shoppers, "jumped on that like a rooster on a June bug," Mr. Maurer says. Says another department analyst: "If we offered U.S. corn at $375 delivered to the moon, Argentina would give it to you at $374." In Argentina, there are no farm-price supports. So farmers there, who till some of the world's richest farmland, must absorb the losses caused by price-cutting.

Brazilian exporters also pose stiff competition. Brazilian soybean-oil exporters, whose borrowings are subsidized by the government, regularly undercut U.S. prices by 10% or more. This year, "the price of Brazilian soybean oil is as low in relation to the U.S. price as I've ever seen it," says a grain merchant.

The strength of the U.S. dollar makes it easier for competitors to underprice the U.S. So does this fiscal year's $21.2 billion in U.S. farm programs. Under PIK, U.S. farmers have signed up to idle nearly one-third of their normal cropland, almost twice as much as expected. Anticipation of the resulting cutbacks in production has helped raise prices for corn, rice, wheat, sorghum and cotton since January.

Jumping With Glee

But U.S. farmers aren't the only ones rejoicing over PIK. Because the U.S. is the biggest grain trader, grain prices worldwide are set in relation to prices on U.S. futures markets. If U.S. farm programs increase prices on U.S. futures markets, as PIK has, they also raise world prices. So U.S. farm subsidies raise prices to farmers in, say, Canada, Australia and Argentina, where farm prices are supported little or not at all. Hence the price of a foreign farm commodity, Argentine wheat for example, can rise and still be cheaper than American wheat, spurring Argentine output. Argentine farmers are "jumping up and down with glee at our PIK program," says an Agriculture Department spokesman.

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Argentine wheat acreage rose 17% last year and is expected to increase again this year. Australian wheat acreage has risen 43% since 1974 and is expected to keep increasing. Canadian farmers have raised wheat acreage 19% since 1978 and plan another, 5% to 6% increase this year. In Thailand, a major exporter of livestock feed as well as rice, land under cultivation has jumped more than 25% since 1974.

"We're cutting back while these other countries are expanding. It concerns us, but I don't know there's much we can do about it," says Richard Smith, administrator of the Agriculture Department's Foreign Agricultural Service.

Lewis A. Remele, president of Peavey Grain Cos., a unit of ConAgra Inc., the biggest publicly held grain merchant, laments: "These high prices are encouraging a lot more production around the world, and that means more competition."

Capital Investment

It also means more capital investment in agriculture outside the U.S. Australia has built modern grain-loading facilities on its western coast, and Canada is building a new port facility at Prince Rupert, British Columbia. In Thailand, one of the liveliest areas for agricultural investment, Du Pont Co. just opened a $2.2 million farm-chemical plant near Bangkok. Thailand's young but aggressive poultry industry has increased exports three hundredfold since 1974 and snared a No. 2 share of Japanese poultry imports, behind the U.S.

To U.S. grain traders, shippers and handlers, the loss of U.S. market share in world trade is potentially disastrous. The heaviest competition now is in world wheat trade, and wheat-exporting regions such as Nebraska, Oklahoma and Kansas have been hurt worst. At Houston, the nation's biggest wheat-shipping port, exports are "as slow as they've been in several years," causing layoffs and reduced work-hours, says an executive of a large export concern.

Some companies recently expanded their facilities, betting that the export growth of the 1970s would continue. Peavy Co., acquired by ConAgra last year, began in 1981 to build a big new elevator near Portland, Ore., an area where exporters now are laying off workers and shutting down facilities temporarily because of slack business.

Many expect a revival of trade. "From a long-term standpoint, we feel that the elevator is a good investment," says Mr. Harper of ConAgra. The timing, he says, "could be off a year or two."

But the grain industry's surplus shipping and handling capacity likely will persist until the late 1980s, says Russell Bragg, vice president of grain merchandising for Pillsbury. "The entire agribusiness system a few years ago geared up to feed the world. In fact, the need for that hasn't materialized. Now, the system is in dire straits."

FIGURE 5
PAGE 1 of 2

HE WALL STREET JOURNAL, Friday, May 20, 1983

Lost Exports

U.S. Soybean Salesman Faces Major Obstacles Peddling in Colombia

In a Lagging World Market, He Uses Pitchman Ploys, Promises of Aid, Credit

A Pioneer With Rosy Glasses

By SUE SHELLENBARGER
Staff Reporter of THE WALL STREET JOURNAL

BUGA, Colombia—Gilford Harrison tears along a potholed back road in a rented Renault, racing up hills and past dawdling cattle wagons, as he heads for a meeting in this remote and sleepy hamlet. His mission: to sell America's soybeans.

In Buga, that mission seems nearly impossible. A local businessman tells him Colombians are more intent on stepping up use of a competing local crop called the African palm than on buying more foreign soybeans. Import barriers limit purchases of foreign soybeans by the town's oil-seed processing plant.

This is the second of two articles on U.S. farm exports.

At the plant, Mr. Harrison happens upon a faded cardboard box that once held a food product called texturized soy protein. Colombian consumers didn't like it, and it's no longer sold here.

Gilford Harrison

Undaunted, he climbs back into his car and in a moment is off on another pell-mell dash, this time toward the farming-district city of Cali. And so it goes for 18 days of a whirlwind promotional tour that also takes Mr. Harrison through Santo Domingo, Ecuador, Venezuela, Peru and Mexico. He endures fatigue, suffocating heat and, at one point, a bout of intestinal distress in a determined effort to put more foreign money in the pockets of hard-pressed U.S. soybean growers.

For farm-export promoters like Mr. Harrison, the world market isn't a very fertile place these days. Exports of U.S. farm commodities, after surging in the 1970s, fell in each of the past two years, and they currently are running 10% behind last year's pace. Some once-strong markets, such as Japan, are nearly saturated, while many countries are striving for agricultural self-sufficiency.

Europe, formerly a food importer, now competes for export customers. And annual grain sales to the Soviet Union have plunged $1 billion since the U.S. embargoed them for 16 months at the beginning of this decade. For the U.S. export promoter, says Richard Bell, the president of the Arkansas-based cooperative called Riceland Food Inc., "It's 'Have bag, will travel'; if anybody's interested, you go talk to them."

Yet the U.S. needs more than ever to sell its farm products overseas. Such sales totaled more than $39 billion last fiscal year, or 18% of U.S. exports; without them, the country's $33.4 billion trade deficit would have been far more painful.

And exports are vital to the depressed farm economy. Farmers relied on foreign markets for one-third of their income last year, up from 16% in 1971. The slippage in export sales, combined with stagnant domestic consumption and recent bumper crops, resulted in the current farm distress and costly government rescue programs.

Too Many Beans

The U.S. is especially dependent on overseas markets in the case of soybeans, as roughly half of the crop is exported. The price farmers could get for their beans fell to a five-year low of about $5.20 a bushel last winter. It has revived by about $1 a bushel since then—largely because of brightened prospects for exports.

But the prospects don't brighten without a strenuous promotional effort, of the sort Mr. Harrison makes in Latin America. Working for the American Soybean Association, he hawks the beans and such products as soybean oil and soybean meal in 19 countries south of the Rio Grande. Farm trade groups send abroad about 70 such promoters and their staffs, increasingly to remote, Third World areas that offer the most room for growth.

In some places, they must start almost from scratch. As Mr. Harrison tells it, "We go places where we say, 'We're gonna tell you about soybeans,' and they say, 'What's a soybean?' "

The educational effort costs about $56 million a year, counting all farm products—a rise of one-third just since 1980. Farmers in 17 states have voted in referendums to spend more of their own money to widen their markets, and commodities companies are spending more as well. Together, farmers and agribusiness concerns finance 40% of the export-promotion program, with the rest coming from the Agriculture Department.

Up Against It

Mr. Harrison and his colleagues face an array of obstacles. Among them are import barriers erected by protectionist governments, the ingrained eating habits of foreign populations, growing competition from other exporters, a strong dollar that makes U.S. products costly, and the overstressed budgets of many of the governments the promoters deal with. Added to these, in many cases, is a local climate of violence, as well as suspicion of Yankees bearing gifts.

As a U.S. soybean promoter in Latin America, Mr. Harrison faces an additional difficulty. He is operating in the back yard of the world's other leading soybean exporter, Brazil.

But the 56-year-old Mr. Harrison cheerfully tackles the job. A former international merchant who once swapped 4,000 bales of Mexican cotton for two Yugoslav steamships, he is a gregarious pitchman of the old school, right down to his soybean lapel pin and necktie. A glib tongue and a salesman's stock of jokes are part of the package.

He is well-equipped too in matters of substance, for he is able to dangle promises both of U.S. technical assistance and of low-cost government credit. For instance, Mr. Harrison may offer to send expert help or to arrange seminars or educational trade missions to the U.S. It's a common strategy; the Agriculture Department and U.S. wheat growers once built a $1.5 million Western-style bakery for China to stimulate wheat demand there.

Aid to Buyers

In terms of credit, Mr. Harrison's hand has been strengthened recently. The Reagan administration has sharply increased U.S. credit offerings to foreign buyers and added a new $1.75 billion program blending low-interest and guaranteed loans. On this trip, Mr. Harrison wins commitments from government buying agencies in Venezuela, Peru and Ecuador for up to 223,000 tons of soybean oil—equal to a third of Ohio's crop—if he can arrange cheap credit from the Reagan administration.

That isn't always sufficient these days, however. In Mexico, he learns that this old customer, although it has $1.7 billion in U.S. credit guarantees, may turn to Brazil for some of its soybeans. The reason: Brazil probably will have to pay part of its oil debt to Mexico in soybeans, of which it has plenty, instead of in cash, which it lacks.

On tour in Colombia, Mr. Harrison faces daunting problems and hectic schedules. In Bogota, panting from the 8,660-foot elevation, he and his delegation (two soybean-association officials, a farmer, a reporter and an Agriculture Department man) hustle to make four meetings in three hours. A government scientist trying to keep up with Mr. Harrison once fainted away in the even more rarefied air of La Paz, Bolivia. This time, Mr. Harrison succumbs to Montezuma's revenge after dining on a local dish, rooster combs and wattles in wine sauce.

There isn't much substantive bargaining on this trip. Instead, the group gathers information on trade barriers, makes new contacts, scouts locations for an office, and proselytizes. Colombia is a tough customer. Its government sets high prices, which discourage consumption, and strict import limits, thus shielding both its domestic soybean producers and its budding industry in African palm oil.

FIGURE 5
PAGE 2 of 2

Official Resistance

Lloredas Grasas S.A., one of Colombia's biggest soybean-crushing plants, is running at just 50% of capacity. It wants more beans to crush, but Idema, the government buying agency, hasn't authorized more imports.

An official of La Americana S.A., another processor, complains that the government sometimes overestimates domestic soybean output and thus cuts off imports too soon. "They pull out their numbers and say, 'You don't need any more soybeans,' " he says. Processors once set out to compile their own figures but were stymied by cost and the tendency of Colombian farmers to misstate their production.

To succeed here, Mr. Harrison must work from the ground up. He hopes to increase pressure for easier imports by stimulating soybean demand from farmers. So he hires a Colombian consultant to recruit livestock growers for feeding trials, in which part of the herd will have its diet enriched with soybean meal (to add protein). If all goes well, the farmers will become convinced of soybean meal's economic value, and they and their feed suppliers will lobby for easier imports.

Most of the soybean meal currently used here is fed to chickens and pigs. So another of Mr. Harrison's ideas is to try to stimulate Colombian consumption of pork and poultry. Colombians now eat only about one-eighth as much pork as people in the U.S., and chicken is relatively costly.

But changing habits is an agonizingly slow process, as discovered by a private Colombian agricultural-research center known as Ciat. A Ciat official, Jorge Enrique Paz, points out a field growing a new strain of disease-resistant edible beans developed here. And here they stay, rejected by Colombian consumers. "It's so difficult to sell something new here," he says.

Local Competition

Later, at lunch in Buga, businessman Jorge Duran explains to Mr. Harrison's delegation why Colombia is determined to develop the African palm, whose kernels yield oil when crushed. "The tendency in the world is to be self-sufficient," Mr. Duran says. "You don't want to be in the hands of someone else, who is a friend today but maybe not in 10 years."

At an old processing plant near Buga, a cartoon painted on a bin shows a smiling, dancing soybean above a small pair of crossed palm fronds. "Five years from now, the palm will be on top," Mr. Duran remarks.

Three days and many meetings later, the soybean delegation finds itself in Bogota, getting ready to wind up the Colombian part of the tour. A call at the U.S. Embassy, with its guards and its high iron fence, serves as a reminder of another difficult condition sometimes facing export promoters: guerrilla violence. Reports have been circulating that several farmers were murdered in remote areas, and U.S. Ambassador Thomas Boyatt sternly cautions the group against setting up an office or traveling in Colombia without embassy permission.

Mr. Harrison isn't worried. But the soybean association did give up its visits to Beirut, Lebanon, where one processing plant was regularly caught in the crossfire of hostile factions. Contact with Beirut is maintained by telex these days.

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The last stop in Colombia is at the office in Bogota of Idema, the government buying agency whose policies Mr. Harrison would dearly love to loosen. Among the pictures on the wall is one of a grain elevator the agency owns. If Idema has that kind of capital equipment, "they're not going to get out of the business" of managing imports, the soybean association's chief executive, Kenneth Bader, remarks ruefully.

The meeting is perfunctory. An Idema aide brushes off offers of help in marketing and trading farm commodities. The head of the agency, Augusto Ramirez Ramirez, discourses briefly on import plans and this year's Colombian soybean crop, then thanks the delegation for coming. Mr. Bader invites Mr. Ramirez to visit the U.S. and bids him adieu—a plane to Mexico is waiting.

"Some of these guys probably laugh at us going out the door," Mr. Harrison says as the group exits. " 'These crazy gringos,' they say. 'They travel 6,000 miles and spend 35 minutes with you.' "

But that doesn't bother the ever-optimistic Mr. Harrison, who actually wears glasses with rose-colored lenses. "We're pioneers, we're blazing a trail," he says. When he was a private merchant, the soybean promoter says, "the only thing I could measure by was my bank account. Now, who knows? Maybe 50 years from now they'll say, 'Look at what old Gil did down there in South America. He really was a hero.' "

Senator PRESSLER. Thank you.

Mr. Barney Tucker, chairman of Top Yield Industries of Lexington, Ky.

STATEMENT OF BARNEY A. TUCKER, CHAIRMAN, TOP YIELD INDUSTRIES, INC., LEXINGTON, KY.

Mr. TUCKER. Thank you, Mr. Chairman.

A copy of my statement has been filed. I have arranged a brief summary. I would like to follow it rather closely so that I can be succinct and brief, leaving time for any questions that some of us will not cover, and I am sure we will not cover them all.

First, I think the concept of PIK is and was sound, given the situation. I think it is a bandaid, however, a temporary reprieve, because the American farmer needs to be producing near the levels that we have been producing when we created these surpluses. The problem is on the marketing end. I think it is a useless effort in trying to coax the European community and others into reducing subsidies on their exports. They probably are not going to do it.

We are doing it to ourselves. As Mr. Crawford said, "look in the mirror." You cannot fight by the Marquis of Queensbury's rules in a street brawl.

Anyway, back to PIK. I think the concept was sound. For one reason, it just makes sense, and that is not always common coming out of our bureaucracy.

Second, it conserves our soil, an irreplaceable natural resource. It reduces burdensome surpluses by the use of surpluses in lieu of cash. It puts sorely needed cash in the pockets of hard-pressed farmers and, hopefully, their creditors in turn. It abates huge and burdensome Government outlays for interest and storage. It gives the farmer at least a 1-year breather from large cash outlays to produce additional surpluses, and, very importantly, it should soon slow the rate of bankruptcy cases filed by farmers and their suppliers.

Our experience in this area this year is the worst in the history of our company. I might say what I should have said earlier—Top Yield Industries is a closely held corporation headquartered in Lexington, Ky. We do business in most of Kentucky, Indiana, and segments of southeastern Illinois, southwestern Ohio, and northern Tennessee.

The concept of PIK, as I said, I think is sound, and we approve of it. However, it is a temporary measure. The problem arose primarily from the timing and the whole base bids without limitation of acreage. I have said in my paper that we should eliminate whole base bids. However, frankly, I would qualify that and say that possibly whole base bids up to 100 acres or so for small farmers might be allowed, because there is a point—and I am not qualified to say exactly where it is—that a partial reduction is counterproductive for a small grower.

The reason the timing created such a problem is that supply contracts are made months in advance, often on a take-or-pay basis. We need at least 6 to 9 months lead time in advance of the planting season for inventory planning, including associated movement, storage, and financing.

By the time the magnitude of PIK was known, support pipelines in the fertilizer industry were burgeoning all the way down to and including on-farm storage. I have been told of Kentucky corn growers who had as much as $100,000 worth of fertilizer, seed, and chemicals already in on-farm storage. Some put their acreage into PIK and were out trying to sell their supplies to neighbors at a loss.

These whole base bids without limitation of acreage, were what created the major problem. Farmers were trying to sell products back to their retailers or other farmers, suppliers cancelling orders and/or trying to sell products to other suppliers or to anyone else at even less than cost.

I have a few suggestions. If a second year of PIK, or whatever surplus control measures needed is planned, its scope and parameters should be determined at the earliest possible date. The fertilizer industry needs some definitive direction by August 1.

Whole base bids should be eliminated or at least limited to relatively small acreage.

The long-term favorable impact of PIK on our agricultural support industries is reflected on Wall Street. However, this is of little concern to the small town supplier of fertilizer, seeds, and chemicals whose business is reduced 20 to 50 percent this year by a surprise, another uncontrollable factor impacting his business at the 11th hour.

Some program of assistance is probably needed by some of these particular retailers. About 70 percent of our business goes to the retailers, if you will, concerns similar to Mr. Crawford's. Eighteen years ago our business was probably smaller than Mr. Crawford's is now, but by aggressive actions and dedication, we have grown very substantially, primarily through acquisition. We have worked hard. If we have red ink in 1983, it will be my first in the 45 years I have been in the fertilizer business.

Finally, I consider PIK an innovative, commonsense approach to a short-term solution for a chronic problem. Let us hope that a similar degree of innovation, farsightedness, and sound thinking can and will produce some long-range answers. We must refrain from imposing senseless, useless export embargoes on farm products while at the same time launching an aggressive, unprecedented world marketing offensive. If we can subsidize guns, we can subsidize food.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Tucker follows:]

STATEMENT OF

BARNEY A. TUCKER
CHAIRMAN
TOP YIELD INDUSTRIES, INC.
LEXINGTON, KENTUCKY

My name is Barney A. Tucker. I am Chairman of the Board of Top Yield Industries, a closely held company headquarted in Lexington, Kentucky. We manufacture and/or distribute fertilizers and crop chemicals to independent dealers and farmers in Kentucky, Indiana and segments of Tennessee, Ohio and Illinois.

It is gratifying to have this opportunity to discuss various aspects of PIK as it relates to the fertilizer industry.

For forty-five years I have been involved in almost every aspect of the fertilizer business. It is a business for which I feel I have a very good understanding. Today I would like to convince you first, that our vital industry is in trouble, second, that the Payment-In-Kind program did not take our industry into account, and that third, you should do something about it.

I. FERTILIZER BUSINESS IS VITAL BUT FRAGILE

As you know the fertilizer industry is but a small part of the total food production chain in this country, but a very vital part. USA average corn yields have dramatically increased in the last 50 years - in fact, they have almost doubled each twenty years. New varieties, pest control and new fertilizer technology have caused these amazing increases. The efficiency and productivity of our farmers have made them the most competitive producers of food in the world. Without fertilizer as a farm input, productivity would be dramatically reduced, and the ability of the American farmer to compete in the world market would be eliminated.

Unfortunately, in order to supply the American farmer with the input of fertilizer, those of us who chose to be in the fertilizer business must take some risks that many entrepreneurs would choose not to take. There are factors over which we have control and there are factors over which we have very little or no control.

Factors Which We Are Able To Control

1. Fixed Costs. Through planning and the investment of new capital and retained earnings we are able to build mining facilities, production facilities, distribution outlets, retail outlets, transportation equipment, application equipment and all other auxiliary capital items that are needed for the production, transportation and

distribution of fertilizer and chemical products.

2. Variable Costs. Based on forecasted volumes we are able to hire a work force and produce the volumes and services that the agricultural community demands.

Factors Over Which We Have No Control

1. Weather. In 1983 record rainfalls are making this one of the latest and worst planting seasons in recent history. Every day that is lost in planting has a dramatic effect on the volumes of fertilizers that will be needed, as well as a reduction in crop yields.

2. Government Policies Effecting Pricing. We are dealing with a commodity, therefore, any variance in government set aside programs obviously effects the price of grain and the demand for our products.

3. Government Policies Effecting Our Ability To Market Products Worldwide. Since domestic demand does not consume total farm production, it is absolutely necessary that the American farmer have a world market for his product. The grain embargo under the prior administration had a shattering effect on our grain export and consequently the American farmer and his support suppliers. It will take years to overcome this bureaucratic blunder.

4. Foreign Exchange. The strength of the dollar has a direct effect on foreign buyers ability to purchase our grain.

5. World Price of Grain. Since grain is a commodity which has such a volatile supply and demand on the world market due to all of the above uncontrollable factors, the farmer always has an uncertainty as to the selling price of his products.

Although we realize the severity of the factors in our business over which we have no control, we chose to cope with these risks and remain in a business which is vital to the U.S. farm economy and in a business where there will be continuing demand for services as long as people continue to eat.

Survival of the fertilizer industry is vital in that it plays such an irreplacable part in the production chain of the world's most necessary item, food.

Risks Vs. Returns

Most industries that choose to take extraordinarily high risks, reap the benefits of high returns. Unfortunately, the commodity, fertilizer, is produced, distributed and sold on the thinnest of margins. Any variance in the risk factors of the business can throw margins to the positive or negative side. It is the challenge of management from the producer level to the smallest of farm supply stores to insure each of their respective businesses that there is enough capital, knowledge, expertise, and good business practices to overcome these high risk factors in this highly seasonal and cyclical business.

Effects of PIK On Our Industry

Even though we support the PIK program as a sound, long term investment in the future of U.S. agriculture, we view it as having a dramatic effect on our business in 1983. It is yet another uncontrollable factor that came along at the wrong time.

Our industry in 1982 showed record losses for many companies and the lowest return on investment in the last decade. There were very few bright spots on our horizon. PIK hit us right where it hurts by reducing total consumption and therefore the volume so necessary for survival.

Our Company

Gentlemen, in my forty-five years in the fertilizer business, I do not recall laying off a single full time person for lack of work. We are considering, on July 1 of 1983, a total shutdown of our retail plants for an extended period of time for the purposes of reducing labor costs until actual seasonal shipments begin in late winter or early spring of 1984. It is a sad commentary that the good intentions of the government to help the farmer in the long term have effected an industry to the extent that ours has been damaged.

Our sales predictions show that 1982 - 1983 volumes will be down by 25 to 30 percent, and we have substantial retail customers who report a 50 percent decline. There is no possible way that fixed costs can be covered with these reduced volumes. We expect to experience the largest bad debt write off in our company's history. There is no way that our retail customers can sustain the loss of volume in their businesses and, therefore, will be unable to pay us for the small amount of product they were able to purchase. The bankruptcy laws have made it easy for small businesses to run away from their obligations and leave suppliers such as us holding the bag. I quote an acclaimed Indiana farmer in the May 23, 1983 issue of Forbes when he says, "Bankruptcy helped. I see it as a way of keeping costs down." The ripple effect of bad debt from the farmer to the producer in our industry is staggering. Although PIK will put more cash into the farmer's pocket, he is not spending that cash with his fertilizer dealer this year because, obviously, he does not need those goods or services.

Before PIK we were existing in a very fragile industry in a very difficult time. After PIK we find ourselves desperately trying to exist in a farm economy that has been dramatically changed by our government.

II. TIMING AND WHOLE BASE BIDS CREATED THE PROBLEMS

Since our business is such a seasonal one, we accumulate inventories in the off-season and sell it in a very concentrated planting season. At least nine months of lead time is needed for inventory planning. By the time the magnitude of PIK was known, support pipelines were full down to and including on farm storage of seeds, fertilizers and crop chemicals. The effect on the pricing of these inventories was dramatic. We are usually able to depend upon some appreciation in inventory to off set carrying costs. This year inventory values have depreciated. When these decreased values are added to our carrying cost, the fiscal effect is overwhelming.

Another oversight in the establishment of PIK was the acceptance of whole base bids without limitation of acreages. The resulting huge set aside created surpluses at every stage of the support supply system. This situation created chaos; farmers trying to sell back to their direct suppliers or other farmers, and suppliers trying to cancel orders and/or sell products to other suppliers or basic producers at less than cost.

The combination of the bad timing in the announcement of PIK and the incorporation of whole base bids has had a very detrimental effect on the fertilizer industry in general.

III. WHAT CAN GOVERNMENT DO ABOUT IT?

The intention in the establishment of PIK was a good one, and hopefully will benefit American agriculture in the long term. A gross inequity resulted, however, when the effect on input industries was overlooked. The question is what can be done about that. I have a few suggestions.

First, abandon the practice of making the American farmer and his support industries a pawn in international politics - vis-a-vis grain export embargoes. It is ineffectual and counterproductive.

Second, if a second year of PIK is needed, it must be announced at the earliest possible date. The fertilizer industry needs to know by August 1st.

Third, whole base bids should be eliminated.

Fourth, thought must be given to the logistical movement of grain from storage to the ultimate consumer without the burden of double freight and double handling. The double handling of grain could prove to be a very costly exercise.

Fifth, if our governmental entities feel that we should all make an effort to correct our mistakes, thought should be given to some program of loan assistance. Such effort should probably be administered through the FHA with adequate built-in safeguards. Loan ceilings should be on a case by case basis determined by actual need for survival. Partial funding of amounts truly needed only prolong the inevitable and generate a bigger "bang" by putting good money after bad.

Finally, those to whom we have entrusted our national welfare should aggressively pursue the redevelopment of our agricultural export markets. This is the real solution to our surpluses as well as making a meaningful contribution toward a more favorable international balance of payments.

SUMMARY

In summary, I would like to stress a few points. The fertilizer business moved me to the bluegrass area of Kentucky more than forty years ago; however, by long heritage, family teachings and conviction I am a conservative Tennessee Republican who votes for sound and able government, not necessarily the party. I am asking nothing for myself or my company. I was asked to speak for an industry. It is an industry which has been sorely jeopardized by two governmental mistakes.

Much of our huge surplus of grains was created by a naive export embargo which damaged only our farmers and their supporters. The second mistake was made in trying to correct the results of the first. As previously stated I feel the concept of PIK is good and innovative; however, the timing and scope did the damage to support industries. Whole base bids permitted the program to fairly leap out of bounds, and timing caught support pipelines overflowing.

Millions of bushels of grain going to our farmers was grown with fertilizer that has not and will never be paid for; in some cases by the consumer, in some by his retail supplier and in many cases by neither.

Finally, it would seem that in light of the above, Congress should seriously consider the situation thoroughly, but promptly, and take meaningful steps to correct governmental errors and insure the very survival of vital agricultural support industries which have been so seriously effected by yet another uncontrollable factor. We can't afford any more surprises.

Thank you very much for the opportunity to present my views.

Senator **Pressler**. Thank you very much for a very good statement. I will have some questions later.

Next I will call on Alvin McQuinn, chief executive officer of Ag-Chem Equipment Co. in Minneapolis, Minn.

STATEMENT OF ALVIN E. McQUINN, CHIEF EXECUTIVE OFFICER, AG-CHEM EQUIPMENT CO., INC., MINNEAPOLIS, MINN.

Mr. **McQuinn**. Yes, sir, Mr. Chairman.

I have prepared a four-page paper for the record and I have submitted that. I would like to summarize my comments.

Our company manufactures and markets nationwide and internationally specialty agricultural products—self-propelled fertilizer farm chemical applicators. We sell to the farm supply industry in the United States and then market these same products throughout the rest of the world.

We are experiencing, by that exposure—well, we are being exposed to what the rest of the world is doing, and they are not backing away from producing crops. They are going all out. They are using all the technology that they can bring to bear to get the biggest and the most results possible.

I think that the PIK program from a financial standpoint for the farmer was a good program. I think there is an element of welfare in it, and I think probably justifiably so.

Long range, I am terribly concerned about the trend. I think it is disruptive. It is basically disastrous both for our farm supply industry and possibly for our whole U.S. economy.

As to our own company, our sales were off domestically for our own agricultural products by 50.percent this last season. The indecision as far as dealers were concerned, as far as farmers were concerned, as to what the program was—many people just said, "Well, I will get by. I will put it off," and we did see a 50-percent drop. We have been able to make a great portion of that up in our export sales and in other things that we have done domestically by varying and modifying our products some and going for some other markets.

Our inventory at this point—the PIK program has created, this drop in sales has created, an imbalance in inventory. There are certain units that we have produced for the domestic market, and we still have them on the shelves. Of the total inventory picture, our inventory is probably up 35 percent now more than in the past.

I think the numbers that you have on your chart and that have been presented by the Department of Agriculture at this point in time are going to be very conservative and going to be less than what the actual numbers are. Now that is just one individual window observation and certainly not based on any calculation.

We have seen a great number of bankruptcies within our own customer base within the United States take place. The actual repossessions—and I counted them up about a month ago—have doubled over a year ago. In addition to these repossessions, we have seen a lot of voluntary sellouts, people that are just throwing in the towel. They have not gone bankrupt but they said, "I just can't cope with this. I've got to dispose of my equipment. I am going to have to do something else."

The other side of that, it is kind of a sad aside, I think, and that is that we will find an unemployed young man and he will decide that he wants to get into the business. Therefore, he goes to a relative, a mother or some other family member perhaps, and borrows money—$30,000, $40,000, or $50,000—for a used piece of equipment and tries to get into a business that there are already too many people in. I think that is a sad aside of our time.

I would like to read to you my position on this. I urge the announcement on August 1, 1983, of a maximum 10 percent set-aside plan—certainly, your plan of August 15 would be very acceptable—for all crops for 1984. This more restrained program can serve as an equalizer for the 1983 PIK overkill of more than 35 percent. In general, a set-aside program should not exceed 20 percent in any one year. However, I am basically opposed to any program that restricts the U.S. agricultural industry. Almost always when the industry cuts production, costs increase and efficiency goes down. Government must take an active role in selling U.S. agricultural commodities. We should view grain commodity sales as our market, protect it accordingly and sell what we produce. Obstacles to this end should be removed.

From what I can determine traveling throughout the world—and we have two representatives in the Mideast. We have contracts with distributors in a number of other parts of the world. We have a representative that lives in the United Kingdom. We have a pretty good exposure as to at least, in part, what is going on in some of the other agricultural parts of the world.

These people are going aggressively at increasing production. Even Canada, where we have two salesmen and some service people, some parts installations, our market has improved this year over last year in Canada. They are increasing production while, again, we are cutting back.

There is a great move, I think, afoot throughout the world to bring new lands into production. The countries that are doing this have suddenly or are just now really discovering the kind of technology and the kind of equipment—they are discovering that there is equipment and technology that can allow them to produce economic yields of grain crops, and they are finding that this is going to be a good source of self-sustenance and of even an export in some cases.

As near as I can tell, Saudi Arabia, with the harvest of the crops that they are taking in right now, will be self-sufficient in grain this year. At the rate they are putting in new pivots and expanding their agriculture, it would look to me like they are going to have some very big surpluses in the next few years.

Egypt is talking about it, and Nigeria. There is going to be something in Egypt. I could name a long list of other countries that are doing similar things.

It comes down to mean that we must market our products. That is the only option we have. I think to withdraw into our shell is going to be counterproductive and eventually work long term against us.

I would like to relate one situation to you. The foreign businessmen who visit our company, who are interested in our products, listen with almost disbelief when they hear about our PIK program. Recently, I explained the program to visitors and, as they understood it, their smiles reminded me of the proverbial fox finding the chickenhouse door left open at midnight.

There is no question in my mind that the long-term effects of artificial crop reduction will be detrimental to the United States, the farmer, and the agribusiness community, including our own company.

The greatest long-term damage by PIK to U.S. agribusiness as a whole, including the farm supply sector, is the effective withdrawal of our grain products from the world market.

I think we need legislation to establish—and I am not sure what it should be—a marketing board or an authority with the power to market full U.S. agricultural production. The authority should have the capacity to inject subsidy where necessary and maneuver as required to best dispose of U.S. farm production.

I commend the Agriculture Department, or whoever it was that perfected the sale of flour to Egypt. I think that that was certainly a step in the right direction.

I have a copy of Senator Boschwitz' "The New Era of Agricultural Exports." I think he has addressed several things that are very commendable. He has discussed the possibility of an export PIK and has introduced the agricultural free and fair trade bill. I do not know what the status of that is, but I think those kinds of things and ideas are certainly in the right direction and where we should be headed.

I do not believe the farm supply industry can exist in any form similar to what it was in 1982 by taking 80 million acres out of production in 1983 and again in 1984. I think if the program were repeated in any form close to what it was for 1983, that there would be a massive disruption in the farm supply industry, and the support industries of agriculture.

I would also like to submit that an effective set-aside program for 1984 would require alternate acres from 1983 and should not accept the same poor old acres, the ones that flood out and the sandhills, but require the top production acres be utilized in any coming program for 1984.

I thank you very much for your consideration.

[The prepared statement of Mr. McQuinn follows:]

TESTIMONY
OF
ALVIN E. MCQUINN
CHIEF EXECUTIVE OFFICER, AG-CHEM EQUIPMENT CO., INC.

Mr. Chairman:

My name is Al McQuinn. I am Chief Executive Officer of Ag-Chem Equipment Company, Inc., a publicly held company that has been in existence for more than 20 years. Currently, the company employs more than 450 people with annual sales in excess of $40,000,000. We market our products nationwide as well as internationally. Primarily, we supply large self-propelled machines to custom applicators, independent farm service dealers, and farm cooperatives for on-farm application of fertilizers and ag chemicals. It is specialty agricultural equipment used by businesses that directly serve the farm community. The $85,000 average cost of our new machines will often comprise the major investment necessary for our customers to do business.

THE EFFECT OF PIK ON OUR CUSTOMERS:

Before the 1982-1983 PIK Program the farm supply industry endured an economic distress similar to that which the farmer experienced. The industry arrived at fall 1982 under considerable financial strain. High interest rates, inflation, and reduced farmer purchases all contributed to this problem. It was reported by ABC on June 5, 1983 that there have been more farm foreclosures and related agribusiness bankruptcies this year than at any time since the Great Depression.

The late announcement of the PIK Program for 1983 served as the final blow to many. For some the loss of their business was inevitable. For others a normal year with sales about the same as 1983 would have meant survival. With the actual planted acres so dramatically reduced, there is an oversupply of almost everything needed to produce crops, including seeds, fertilizer, fuel and farm equipment. Due to the late announcement of PIK, our company today is carrying an inventory of 35% more than necessary. With Ag-Chem, production plans and lead orders for supplies must be in place 4 to 8 months ahead of time and cannot to any extent be cancelled after placement.

Most of the farm supply industry has a similar problem. Imagine trying to plant seed grains in the spring of 1983 to meet 1984 needs that are still to be determined by a government-directed program. I am sure the present Crop Set-Aside Program and Payment-In-Kind Plan is a good one for the farmer and may, in fact, help to decrease surpluses; but the corresponding devastation and sacrifices of the agricultural services and farm supply industry will be a very high price to pay for the success of the farm program. It is my belief that PIK as presented in 1982 was too much too late. Hopefully, history will not repeat itself. The effect of any government program on support industries should always be considered before implementation.

In the case of the 1984 farm program, any announcement delay beyond 1 August 1983 will unreasonably penalize an already stressed farm supply industry. Delaying the announcement for 1984 is a little bit like shooting yourself in the foot -- it's embarrassing and hurts a lot with no return of value.

SIDE EFFECT OF PIK:

While taking a toll on the farm supply industry, I believe the PIK Program by chance, and not design, may in fact be doing more good than it will ever get credit for. The farm economy was in desperate straits. The wet and difficult weather at harvest time 1982 left great quantities of land untended and unprepared for 1983.

Spring has not gone well. The spring preparation planting season across Agriculture U.S.A. has been cold, wet and subject to flooding that has delayed much and will prevent some 1983 cropping altogether. Had 1983 been a full production year, a large number of farmers would have been hurt by weather in that many of the now PIK acres could not have been planted this spring.

Even now widespread replanting due to poor germination and seed rot is underway. The PIK plan has mitigated these conditions and strengthened the farmer to withstand what otherwise might have been widespread disaster for the ag community as a whole -- both farmer and supplier. This does not, however, justify repeating the plan.

It seems to me that government should be a stabilizing element and serve to level peaks and valleys when possible. Filling the valley of farmer desperation with a PIK Program dug from the farm supply plain is relocating the problem and not an end solution.

I urge the announcement on August 1, 1983 of a maximum 10% set-aside plan for all crops for 1984. This more restrained program can serve as an equalizer for the 1983 PIK over-kill of more than 35%. In general, a set-aside program should not exceed 20% in any one year. However, I am basically opposed to any program that restricts the U.S. agricultural industry. Almost always when an industry cuts production, costs increase and efficiency goes down. Government must take an active role in selling U.S. agricultural commodities. We should view grain commodity sales as our market, protect it accordingly, and sell what we produce. Obstacles to this end should be removed or overcome.

EXTENDED EFFECT OF PIK:

Ag-Chem Equipment Company is more fortunate than other companies. Over the last several years we have established an export market for our products, and this year we will expand export sales. It is from my experience in the business of developing export sales that I offer the following. We are in a world economy. It will be difficult to indefinitely sell U.S. manufactured agricultural machinery. Cost inputs, i.e. labor and materials, are out of step with most other countries' economies.

Today, other countries are moving to sell their grain in markets that have formerly belonged to the U.S. It would appear that, left unattended by our government, the vital export market for U.S. grain will go elsewhere as world production goes up. From my observations, world production of grain is on the increase, both from increased productivity on existing acreage and through expanded production from broad and wide-ranging new areas.

With U.S. costs as they are, it is economically sound for many new grain-producing regions to develop throughout the rest of the world. The foreign businessmen who visit our company, interested in our products, listen with almost disbelief when they hear about our PIK Program. Recently, I explained the program to visitors and, as they understood it, their smile reminded me of the proverbial fox finding the chicken house door left opened at midnight. There is no question in my mind that the long-term effects of artificial crop reduction will be detrimental to the U.S., the farmer, and the agri-business community, including our own company.

Interest in our equipment in countries with existing ag production, along with the talk of new production areas to come, leads me to believe that the world can get along without U.S. grain with very little effort. As an example, with the 1983 harvest this year Saudi Arabia has become self-sufficient in grain production. Increasingly, other grain-producing regions of the world are gaining expertise and efficiency to rival or exceed the best the U.S. has. France and the United Kingdom are examples of what can be done through intensified production techniques. Both countries have recently become net exporters of wheat. Production in both countries is still on the increase and exceeds domestic requirements by a substantial margin. It is this sort of expanding production scenario in formerly low production, or no production, areas that leads me to conclude that the greatest long-term damage by PIK to U.S. agri-business as a whole, including the farm supply sector, is the effective withdrawal of our grain products from the world market. Under these circumstances, it is only a matter of time before someone designs and builds a machine elsewhere to replace our product. When this happens because of U.S. production cost differences, we quickly lose our foreign market and we suddenly find ourselves left with a diminished U.S. need and most likely import competition. Our choice will be either to move our own manufacturing operation out of the U.S. or to try to survive some other way.

I would prefer to forego sales of our machines in export now and share in the business of all out U.S. crop production later. When grain is offered for export sale in the U.S., the price is based on U.S. production costs (labor and materials) and will, in general, be above world market prices. From my observations in visiting other countries and simply tracking the sales and interest in our more efficient crop production machines, it is only a matter of time until world grain production meets or exceeds the demand with little or nothing from U.S. production. Why should we allow our biggest foreign exchange item to go the way of steel and automobiles?

We need legislation to establish a marketing board or an authority with the power to market full U.S. agricultural production. The authority should have the capacity to inject subsidy where necessary and maneuver as required to best dispose of U.S. farm production. I have serious reservations as to whether a real genuine economic upturn and recovery for the country as a whole can get underway as long as either the agricultural or farm support industry is in the doldrums. According to USDA figures, the agricultural system of the U.S. employs 23% of the total labor force. I think it is quite possible the general economy may now be experiencing a consumer-led upturn that by fall could falter and trail off having been nothing more than a temporary swell.

The U.S. State Department has said for each one billion dollars in lost agricultural production there is a loss of 30,000 jobs. If 82,000,000 PIK acres transmit into 15 billion dollars of lost income, it follows that the 1983 PIK Program is costing 450,000 jobs. All out agricultural production could be enough to start an economic recovery or at least boost a shaky one along. If a four billion dollar subsidy would have sold 15 billion dollars of ag products and held our traditional markets, wouldn't we be ahead today to have done just that?

Senator **Pressler**. Thank you. I think the testimony we have had here has been very good.

We are working and should be doing much more as a Government in the area of exports. That is something I have talked about a great deal. However, the problem we are facing here is to get the story across of what is happening as a result of the PIK program to agribusiness or to business.

Would each of you give an estimation of how much your sales are down or will be down this year as a result of PIK, just as best you can?

Mr. **Crawford**. Thirty-five percent.

Senator **Pressler**. Thirty-five percent.

Mr. Tucker?

Mr. **Tucker**. It is a little early to tell. I would estimate about 20 to 25 percent.

Senator **Pressler**. OK.

Mr. **McQuinn**. We are working very hard to get our sales up, but it will not come from domestic ag sales. If I give you domestic ag sales, they are going to be off at least 35 percent, and possibly higher than that.

Senator **Pressler**. What does this do to employment in your firms?

Mr. **Crawford**. We have already cut half. We are going to have to cut further.

Senator **Pressler**. Is that right?

How about you?

Mr. **Tucker**. Never in the—I mentioned the figure before—the 45 years I have been in the business do I recall ever laying off a full-time employee. It is a seasonal industry, so there are certain seasonal ones. This year we will probably, in July when the season is pretty well over, close a number of our retail plants at least for 6 months. It is just a necessary, very painful but necessary, act to survive.

Mr. **McQuinn**. We always have a summer layoff. We start out just about the 4th of July or late June and have a 2-week vacation, and then we are usually off until September. We begin to go back to work usually in full production by October 1. I really do not see much difference this year. Again, it is because of other things. When we started hearing the nervous talk about PIK last spring, and certainly before that, we were headed into other things.

I might say that the rest of my industry has not done nearly as well. Most of our competitors have smaller businesses and have confined their businesses to the United States and to the ag market. We have not done that. We bought our biggest competitor in January. They were in desperate financial straits. Their business had deteriorated from last summer until January when it happened. I think they would have been closed up. I have other competitors that have closed up. Therefore, I do not think our company is really totally representative of what is happening in our industry.

Senator **Pressler**. Do you feel that Government loan programs currently in existence are sufficient to help small businesses? Indeed, do they help at all? Do any of you have any views on that?

Mr. **Crawford**. I think that there are going to be many firms that have been the high service-type firm, and the high service-type, the so-called good dealer, is the one that has probably been affected most in this because he wasn't really needed, was he? When a farmer cut his acreage in half or more, he would do it himself. There will be many of these high service firms that are going to have their entire net worth wiped out, and certainly their working capital. I think that is the reality of the thing.

Therefore, many, if they survive, are going to need some kind of extraordinary help, similar to the disaster-type loans.

Senator **Pressler**. As I understand it, SBA has an economic disaster loan program which is not funded this year and will not likely be funded next year. On the House side they have proposed re-establishing this program for PIK-impacted businesses.

The record will be left open for other Senators. I thank this panel because you have brought us the theme of a rather serious matter. I have argued for a 5-year, long-term grain agreement with the Soviet Union, and I have been for expanding our exports. I feel we have given up a great opportunity to export, and I am afraid if this goes on year after year, we are going to find that the whole economy of the United States will slow down. I think we have to start thinking about the impact on productivity and jobs, and so forth. Of course, the answer is to increase exports. That is easier said than done under our political situation. We have had embargoes, and longshoremen do not like to load ships going to certain countries, and we are the most generous to our allies. We all know that story. We have to get a lot tougher in that area.

I think this panel has brought a rather serious picture to light. I thank you very much.

Mr. **Crawford**. Thank you.

Mr. **Tucker**. Thank you.

Mr. **McQuinn**. Thank you.

Senator **Pressler**. We will now call on panel No. 3: Mr. Harry Wallner, president, National Fertilizer Solutions Association; Mr. David R. Lambert, assistant to the executive vice president for legislative and regulatory affairs, American Seed Trade Association; and Thomas F. Crowley, executive vice president of Edward J. Funk & Sons, Inc.

Do we have a volunteer to be first?

STATEMENT OF HARRY WALLNER, PRESIDENT, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION, PEORIA, ILL.

Mr. **Wallner**. I am Harry Wallner. I am president of Brandt Chemical Co. in Pleasant Plains, Ill., and also the 1983 president of the National Fertilizer Solutions Association.

Mr. Chairman, I would like to thank you for the opportunity to be here today. I think it is a very important committee hearing you have going here.

I have submitted testimony for the record. With your permission, I would just like to summarize it.

Senator **Pressler**. Great. We will put your full statements in the record. It is best to summarize the highlights. I appreciate that.

Mr. **Wallner**. Thank you very much, Mr. Chairman.

My remarks here today are on behalf of the National Fertilizer Solutions Association and also the Fertilizer Organizations Council of the United States. This is an organization of State associations that represents approximately 80 percent of the independent fertilizer dealers in the United States.

We are not here to oppose 1983 PIK. We supported 1983 PIK as an organization. The 1983 PIK, as far as we are concerned, is now history, but we really want to emphasize that we do not oppose the 1983 PIK.

However, I do want to emphasize that if there is going to be anything similar to PIK in 1984, we have to have some adjustments. Some of those adjustments have to be pretty dramatic.

The first adverse impact in PIK to the fertilizer dealer came in the late announcement. We found out really about January 11 what the PIK program was going to be. They indicated they wanted 10 million acres out of production in the feed grains. My remarks here today will be heavy on the feed grains because I am in a corn and soybean area. That is where I know most about the crops.

January 11, when they announced that program, they said they wanted 10 million acres out of the feed grain area, and announced a 20-to-30 signup program. All of the fertilizer dealers in our area knew that was a sweet program. In other words, it was rich enough to entice people to sign up.

As the signup began on January 11, we knew that they were going to far exceed their expected 10 million acres in the 20-to-30 program. I would have bet my whole farm that they would not have opened any full-base bids, and March 17 they did open the full-base bids and we found out that they accepted every one that was properly executed in Sangamon County, Ill. That represented 39.8 percent of the total corn acres in Sangamon County put into the PIK program. That is almost 40 percent of the acres that we found out totally would be taken out of production March 22.

I think a significant point to make at this time is March 1, 2, and 3 in central Illinois were very good weather days. Our farm customer, as a retailer, knew that the signup in the 10-to-30 program was very heavy. The weather and the ground was conducive to put fertilizer on those 3 days in March. I have several customers who applied fertilizer to PIK acres those first 3 days of March, feeling full well that they would not accept any full-base bids. That is how far wrong we really were, and I kind of echo Mr. Crawford's statement, "Where do they take their judgments from?"

If we are going to have a 1984 PIK program, we strongly urge that no full-base bids be given. The full-base bids in the 1983 PIK program took out the very best of managers. As you have indicated before, being humans, we are going to put out the least productive acres first. I think USDA numbers indicate that if you take out 20 percent of the acres, the first 20 percent reduces corn yields by a total of 4 percent. You can see very readily that you get the least productive acres out of the program first. I have no fault with that. That is just human nature. I would do that myself.

However, when you take out full-base bids, we had the very best of managers go to the 100-percent acreage reduction in the corn program. This has a big effect on the fertilizer consumption. This is probably why the fertilizer reduction has been so great.

Another point to look at, of the crops that were put in the PIK program—wheat, corn, rice, cotton—I live in Illinois in a corn and soybean area. Of all the fertilizer applied to corn and soybeans in 1982, 94 percent of that is applied to corn. Soybeans are not in the program. Therefore, there is the heavy reduction in fertilizer consumption.

The National Fertilizer Solutions Association took a farmgate poll. Keep in mind this poll was taken about the last of March or the first of April. That poll indicated an approximate 22 percent nationwide decrease in fertilizer tonnage would occur in the 1982–83 crop year. If that poll were taken today, that number would be in excess of 30 percent. There are a couple reasons for that.

We all tend to be a little conservative. I do not think we want to tell our neighbors that our program is quite as strong as it was.

No. 2, we have had some adverse weather conditions in a major cropping portion of the United States. There is a lot of corn to be planted in southern Illinois yet. It is just basically too wet to plant corn. Right now it is probably getting too late to plant corn.

The State Association of Indiana and Illinois both took independent surveys in early April. Their polls were showing 29.8 percent and 27.5 percent, respectively, back then. Maybe their numbers were more accurate than ours on a nationwide basis of 22 percent.

I have privately polled some major suppliers, major manufacturers of fertilizer, in the past couple weeks. Now their disappearance from their warehouses indicates between 40- and 50-percent reduction. That is greater than what I say the dealer reduction is at 30 percent. The real reason for that is the dealer has done an excellent job of reducing his inventory. His inventory drawdown has been very high, and rightfully so.

Dr. John Douglass of TVA took our 22-percent decrease on our poll in early April and related that to TVA studies, and indicated at 22 percent there would be $2 billion less fertilizer sold in the 1983 crop year. I think your chart showed 1.3 or .4 percent, so his numbers are even greater. If we put the 30 percent on that, we would probably be in the $2.5 billion area.

A couple of things we strongly suggest if there is going to be a 1984 PIK program: No. 1, we need an early announcement. An early announcement for wheat I think should be done now, but by no stretch of the imagination no later than July 1. On feed grains, it should be no later than August 15.

We live in a part of the world where fall fertilizer is applied. If the farmer can start his planning and tell us where he is coming from, we can get fertilizers in. It is going to be awfully difficult to put fertilizer in in the summer of 1983, expecting any kind of a program, without an early announcement.

We also urge an export PIK program of some kind. I hear here this morning we have about $30 billion export in the agricultural industry. I have heard all kinds of numbers that the PIK program is going to cost. I think the number that I hear most often is some $20 billion. If we would take just $5 billion of that $20 billion and invest that into a marketing program, we could save $15 billion and yet get rid of our surplus.

I think we need to encourage our farmers to produce on an economical basis. Most of my customers indicate if we need reduction, they will reduce gladly, take some acres out of production with no payment. They understand that if they produce too much they cannot do it at a profit.

However, if we had a Department of Agriculture with a long-range plan—and by a long-range plan, I mean 10 years with a 5-year program—we would not be in the position we are in today. Back in the midseventies Secretary Butz said, "Let's plant fence row to fence row." At the time he was exactly right, but then comes along the Japanese soybean embargo and later on Mr. Carter's embargo and kind of depleted our international exports.

If we get the Government out of the international situation and had a long-range program, we would not have the surplus that we have today.

I thank you for the opportunity to testify.

[The prepared statement of Mr. Wallner follows:]

TESTIMONY

OF

HARRY WALLNER

President, National Fertilizer Solutions Association

I am Harry Wallner, President of the Brandt Chemical Company, a fertilizer dealership in Pleasant Plains, Illinois. I appear here today in my capacity as president of the National Fertilizer Solutions Association (NFSA). I am thankful for this opportunity to present NFSA's views on the Payment-In-Kind (PIK) program.

The National Fertilizer Solutions Association is a national, volunteer non-profit retailer-led, full service trade association with an orientation centered on fluid fertilizer but including other aspects of fertilizer retail operations. Our 1,350 plus retailers are located throughout the continental United States. Total membership exceeds 1,750 companies. Through its many programs, the NFSA provides fertilizer retailers with the survival skills necessary to profit within our economy.

My remarks on behalf of NFSA have been endorsed by the Fertilizer Organizations Council of the United States (FOCUS). FOCUS is a voluntary organization representing 40 state and regional fertilizer and agricultural chemical associations across the United States. When the state and regional members of FOCUS are combined with NFSA membership the remarks delivered today are endorsed by over 80% of all fertilizer dealers within the United States.

There can be no question that American agriculture has faced a severe economic crisis. Fertilizer retailers and the American farmer have faced the economic crisis together. The economic well-being of farmers is of prime importance to fertilizer retailers represented by the NFSA. The PIK concept announced last December was supported by our association as a means of providing tangible economic relief to our farmer customers. We recognized all segments of the fertilizer industry would make sacrifices as USDA moved to remove land from production. However, the sacrifices made by small businessmen operating fertilizer retail outlets has been disproportionate compared to other segments of the agri-business economy.

Last December when USDA announced the intention to initiate a PIK program our industry supported it as the best means of granting relief to hard pressed farmer customers. The announced intention of removing 10 million acres of feed grains and wheat from production above the normal 20% cash set-aside program was reasonable. However, the late announcement by USDA of intentions to institute a Payment-In-Kind program brought the first adverse side affects to our membership. Fertilizer retailers had already made sizable equipment and inventory purchases in anticipation of a brisk Spring season after a disastrous Fall season. These small businessmen were then faced with a prospect of owning equipment that could not be used as intended and storing inventory that could not be sold. An earlier announcement by USDA would have significantly reduced the adverse impact upon them.

Our association immediately sought to make officials in Washington aware of the need to consider the impact upon small businessmen represented by the NFSA when details of the PIK program were written. Correspondence was directed to USDA, the White House and Members of Congress. These communications urged that any plan adopted not unnecessarily reduce sales for an agribusiness economy already facing a recession. The NFSA asked to be included in the working groups examining aspects of the as yet unannounced details.

On Tuesday, January 11, the Reagan Administration announced details of the PIK program. Fertilizer dealers were surprised by the magnitude of the program proposed by USDA. These small businessmen knew at that point that employees must be laid off to weather the economic adversity heading their way. The NFSA quickly filed comments during the brief 30-day comment period. Once again, the association emphasized that all segments of the fertilizer industry would make sacrifices but some may sacrifice their businesses, especially if PIK were extended beyond a single year. Our concern for the economic well-being of farmers was reemphasized with the hope that any future proposal impacting agribusinessmen would be formulated only after consultation with the fertilizer industry.

Our industry finds it difficult to understand why USDA approved the withdrawal of whole farms from production on March 18. As previously mentioned, when PIK was announced in January, USDA expected 10 million acres of feed grains and 10 million acres of wheat to be taken out of production in addition to the normal cash set-aside program. Press reports originating from sources inside USDA emphasized the higher than expected level of participation that existed when the signup period ended on March 11. By going ahead and removing whole farms from production USDA could only further damage the position of small businessmen such as fertilizer retailers represented by the NFSA. On March 22 USDA announced that 41.8 million acres of feed grains and 32.1 million acres of wheat had been taken out of production.

The feed grain acres removed by the PIK program equaled 39.5 million acres of corn and sorghum and 2.3 million acres of barley and oats. The corn and sorghum reduction was 39% of the total acres for these crops; barley and oats 12%; and wheat, 35%. It is important to note the commodities put in the PIK program use the majority of fertilizer consumed in the United States. For example, soybeans were excluded from PIK but only use a small amount of fertilizer in comparison to corn. According to Dr. Harold Reetz of the Potash & Phosphate Institute, of the total nitrogen, phosphate and potash fertilizer nutrients used on corn and soybeans in my home state of Illinois between July 1981 and June 1982, 94% was used on corn. This explains why the PIK program had a disproportionately negative impact upon fertilizer retailers.

After the March 22, announcement retailers began contacting farmer customers to determine the amount of business that would be lost. The NFSA undertook an extensive industry survey to determine the overall impact. When results of our poll are considered in conjunction with the decreasing demand, both domestically and internationally, for fertilizer that existed even before announcement of the PIK program, the adverse impact upon small businessmen is placed in perspective. Please remember this is a poll taken by the retailer, showing the real situation at the final consumption point.

Retailers across the country report an expected 25.03% decrease in dollar volume during crop year 1983 due to the PIK program. A 21.85% decrease in fertilizer tonnage was also anticipated because of PIK. If the PIK program were continued in crop year 1984 in its present form, respondents felt that the decrease estimated for 1983 would continue at the 22.45% level when compared to 1982 value.

In my home state of Illinois the impact of PIK has been more severe than the national average gained from the NFSA retail poll. Returns indicate Illinois fertilizer retailers expect a 25.59% decrease in dollar volume during crop year 1983 due to the PIK program. A 22.26% decrease in fertilizer tonnage is anticipated. This compares with a 25.03% drop in dollar volume nationally and a 21.85% drop in tonnage. Illinois dealers expect a 23.65% decrease in business during the Spring season. The decline is expected to continue this Fall with a 24.55% decrease in business. These figures are conservative when compared to an independent survey conducted by the Illinois Fertilizer & Chemical Association. It shows a projected fertilizer tonnage decrease of 29.80%. A decline of 27.5% was projected for the neighboring state of Indiana in a survey conducted by the Indiana Plant Food and Agricultural Chemical Association. These numbers are higher because they report a statewide sampling as compared to the random poll taken by the NFSA.

USDA Assistant Secretary William Lesher was quoted in an interview with Agrichemical Briefing this month as predicting a 5-7% decline in seed, fertilizer, and pesticide sales. This was after the offical USDA forecast of a 12-14% decline was released. The NFSA feels both of these projections should be revised.

For purposes of calculation the fertilizer tonnage decrease estimated by retailers was rounded off to 22%. Consumption and dollar sales projections were then prepared by Dr. John Douglas, Tennessee Valley Authority (TVA) National Fertilizer Development Center, based on this estimated 22% fertilizer tonnage decrease. Based on the projections by respondents, total plant nutrient consumption would fall to 16.67 million tons in 1983, compared to the official USDA projection of 19.00 million tons, in relation to the 21.51 million tons reported in 1982. Estimated fertilizer sales of $8.75 billion in 1982, would fall to $6.78 billion in 1983, under the retailer survey estimate compared to the official USDA projection of $7.60 billion. NFSA Executive Vice President, CEO, David K. Murray feels the projected decrease in retail margins by fertilizer dealers is the strongest indication of the impact PIK will have upon NFSA members. I agree this represents the bottom line impact of PIK upon fertilizer retailers.

Allow me to reemphasize at this point that our association is not opposed to the PIK concept. I am not here to oppose the 1983 PIK program that is now history. However, we feel the impact upon small businessmen represented by the NFSA was not properly gauged when USDA decided to accept a PIK program of the magnitude undertaken. If PIK were extended a second year at anything near its present level it would certainly go beyond seriously impacting economically marginal dealers and force many of the high quality smaller to medium size fertilizer retailers out of business. Therefore, our association has formulated the following proposals and submitted them to USDA as regards any commodity programs being considered for 1984.

The NFSA has endorsed efforts to enact the Agricultural Export Equity and Market Expansion Act of 1983 (S.822) as the most immediate way to alleviate surplus grain stocks without having to institute a second year of domestic PIK. This "export PIK" bill would allow the Commodity Credit Corporation (CCC) to offer surplus stocks of commodity for each $1 above the export target of commodities purchased by an importing country. The association has additionally endorsed President Reagan's intention to initiate negotiations on a new long-term agreement on agricultural trade with the Soviet Union. The NFSA points out that fertilizer retailers could not withstand the impact of a second year of PIK in its current form. However, if USDA decides to proceed, an early announcement no later than July 1, of any intentions regarding the 1984 version of PIK is essential. NFSA is adding its firm opinion that if PIK is continued in 1984, USDA must not allow whole farm bids and recognize the current high level of allowed retired acres is unacceptable to fertilizer and agricultural chemical retailers.

The positions taken by our association are not only based upon expectations reflected by retail members but evidence accumulating from other sources. For example, fertilizer equipment manufacturers are now reporting a 30-40% decrease in dollar sales due to the PIK program. The Wall Street Journal reported on June 2, a fertilizer industry sales decline of about 20% this year, on top of last year's recession-induced 9% drop. This sales decline was forecast by International Minerals & Chemical Corporation. Ciba-Geigy was even forced to hault production of the corn herbicide Aatrex for five months. Further evidence of the impact of PIK upon retailers was supplied in a study recently released by Chemical Bank of New York. This economic analysis criticized the late announcement of PIK in January 1983 and noted the late announcement did not allow farm input manufacturers to adjust production plans to account for the reduced demand. The result echoed predictions of the NFSA earlier this year when high inventory levels led to lower prices and margins as suppliers attempted to liquidate excess inventories. Local retailers, such as those represented by the NFSA, were expected to be hardest hit by the acreage reductions.

On May 24, USDA Assistant Secretary for Economics William G. Lesher acknowledged to a joint hearing of the Subcommittees on Wheat, Soybeans & Feed Grains and Cotton, Rice & Sugar of the House Committee on Agriculture the desirability of an early September announcement of 1984 feed grain program provisions. Agricultural Stabilization and Conservation Service Administrator Everett Rank echoed this thought in correspondence to the NFSA by saying "an announcement on the final provisions around September 1 would be desirable." USDA officials had previously indicated October 1 as the earliest possible date for such an announcement. We commend USDA for acknowledging the desirability of an earlier announcement while strongly reiterating our call for an announcement no later than August 15.

Allow me to close by noting that the PIK program has given much needed economic relief to the American Farmer. We feel the economic well-being of small agribusiness should be coupled to that of their farmer customers. Future proposals, such as the PIK program, should be formulated with the best interests of both in mind.

Mr. Chairman, I appreciate the time granted for my comments.

NFSA STATEMENT AND POSITION

When USDA first announced in December the intention to initiate a Payment-In-Kind (PIK) program the National Fertilizer Solutions Association (NFSA) and its fertilizer retailer members supported it. Fertilizer retailers supported PIK as the best means of granting relief to their hard pressed farmer customers. The announced intention of removing 10 million acres of feed grains and 10 million acres of wheat from production above the normal 20% cash set-aside program was a reasonable target. However, USDA moved that target by accepting much more than this amount by the time the sign-up period ended in March.

The target was moved again when USDA went even further by allowing whole farms to be taken out of production. This changing of the targeted objective on the number of acres taken out of production put fertilizer dealers in a difficult financial position. However, we are not here today in opposition to the 1983 PIK program. The 1983 PIK program is now history. The NFSA, with support from the Fertilizer Organizations Council of the United States (FOCUS), is calling upon USDA to take steps during crop year 1984, which begins this July 1, to help keep fertilizer retailers in business serving the farmer.

The following proposals were presented to USDA Secretary John Block, and agricultural advisors at the White House

1. We urge passage of the Agricultural Export Equity and Market Expansion Act of 1983 (S.822). This export PIK bill would allow the CCC to offer surplus stocks of commodity for each $1 above the export target of commodities purchased by an importing country.
2. We endorse President Reagan's decision to initiate negotiations on a long-term agreement on agricultural trade with the Soviet Union.
3. Fertilizer retailers could not withstand the impact of a second year of PIK in its current form. However, if USDA decides to proceed, an early announcement no later than July 1, of any intentions regarding the 1984, version of PIK is essential.
4. NFSA is also adding its firm opinion that if PIK is continued in 1984, USDA must not allow whole farm bids and recognize the current high level of allowed retired acres is unacceptable to fertilizer and agricultural chemical retailers.

The following is a comparison of a 22% maximum decrease in fertilizer tonnage estimated for 1983 by retailers answering the NFSA poll shown together with the official USDA projection. The NFSA projection based on poll results was calculated by Dr. John Douglas, National Fertilizer Development Center, Tennessee Valley Authority:

Millions Of Tons in Plant Nutrients

				Estimated on expected 22% decrease reported by dealers on NFSA poll	USDA PROJECTION
	1980	1981	1982	1983	1983
Total Plant Nutrient	23.08	23.68	21.51	16.67	19.00

Estimated Fertilizer Sales in Billions Of Dollars

	$9.50	$9.64	$8.75	$6.78	$7.60

RESULTS OF RETAIL PIK SURVEY CONDUCTED BY NFSA

	Nationwide	Midwest	IL.	IN.	IA.	OH-MI WI.	KY-MO	North Central MN-ND NE SD	Southwest	TX	KS	AR-CO-LA NM-OK	West CA-ID-MT-NV OR-UT-WA-WY AZ	Northeast MA-NY PA	Mid Atlantic MD-NC-SC VA-W.VA-DE	Southeast AL-GA-FL MS-TN
1. What percentage decrease in crop year 1983 do you expect your company to experience due to the PIK program?	25.03%	25.26%	25.98%	23.00%	26.67%	28.30%	15.79%	20.00%	25.38%	28.33%	21.67%	27.25%	21.67%	20.50%	26.00%	25.00%
Percentage decrease in fertilizer tonnage?	21.86%	23.19%	22.28%	24.50%	20.00%	25.00%	13.33%	15.00%	20.00%	20.00%	18.33%	20.00%	21.67%	15.00%	26.00%	22.50%
2. What portion of your operation do you feel will be impacted the most because of PIK?																
Nitrogen	22.81%	24.20%	25.14%	25.00%	24.29%	24.44%	16.67%	10.00%	16.50%	16.67%	18.33%	20.00%	26.67%	16.00%	36.00%	19.00%
Phosphate	20.48%	21.80%	20.18%	23.75%	21.75%	24.50%	13.33%	5.00%	18.75%	21.67%	18.33%	20.00%	26.33%	12.80%	26.00%	18.80%
Potash	18.91%	20.44%	19.08%	22.50%	21.29%	20.56%	15.00%	5.00%	15.71%	18.33%	12.50%	16.67%	31.00%	12.80%	23.00%	22.20%
Secondary/Micronutrients	25.43%	28.00%	30.27%	42.50%	0%	22.83%	30.00%	5.00%	24.38%	21.67%	26.67%	30.00%	25.00%	0%	22.00%	27.40%
Herbicides	22.20%	22.98%	19.18%	24.75%	30.00%	27.78%	23.33%	20.00%	24.00%	21.00%	20.00%	15.00%	21.67%	20.75%	27.00%	18.20%
Insecticides	25.19%	26.58%	22.82%	26.90%	36.29%	31.89%	21.67%	50.00%	20.75%	28.00%	18.33%	30.00%	40.00%	21.25%	19.00%	22.50%
3. Will the PIK program assist your accounts receivable situation with farmer customers?																
Yes	72.00%															
No	28.00%															
4. What percentage increase or decrease in business do you expect to experience during the 1983 Spring season?	22.14%	23.57%	23.69%	23.00%	27.50%	22.22%	15.00%	5.00%	21.79%	20.00%	21.25%	30.33%	25.00%	16.50%	23.33%	22.00%
5. The 1982 fluid fertilizer market share was 26.0%. All factors considered, what will the fluid fertilizer share of the market be the end of the fertilizer year 1983?	26.98%	26.09%	24.83%	24.00%	29.00%	25.67%	27.50%	27.00%	30.29%	33.00%	21.67%	26.67%	61.67%	24.20%	25.33%	25.67%
6. Do you feel PIK will impact on the Fall 1983 season?																
Yes	73.00%															
No	25.00%															
If yes, what will be the impact?	22.08%															
7. If the PIK program were continued in crop year 1984 in its present form, what 1984 percentage decrease, as compared to 1982 value, would you expect?	22.06%	21.23%	21.57%	20.50%	17.50%	25.00%	12.50%	5.00%	23.13%	10.00%	26.67%	33.33%	20.00%	16.67%	26.00%	22.80%

*These poll results do not include Alaska, Connecticut, Hawaii, Maine, New Hampshire, New Jersey, Rhode Island, or Vermont.

Senator **Pressler**. Thank you very much.

Mr. Crowley?

STATEMENT OF THOMAS F. CROWLEY, EXECUTIVE VICE PRESIDENT, EDWARD J. FUNK & SONS, INC., KENTLAND, IND.

Mr. **Crowley**. Mr. Chairman, I will try to be very specific and very brief as to who the PIK program impacted our company, which is a seed company, and also the seed industry, which I think Mr. Ahalt earlier indicated that this program has been most severe on our industry.

If I could, I believe my statement is brief and I think it is specific to employment, profit, and cash needs. Therefore, I will try to read this and close very quickly, if I can.

I am Thomas F. Crowley, executive vice president of Edward J. Funk & Sons, Inc. I wish to express to you our appreciation for this opportunity to discuss the impact of the PIK program on our company.

Edward J. Funk & Sons is located in Kentland, Ind., and is 48 years old. The company produces and markets hybrid seed corn under the brand name of Super Crost in 10 Midwest Corn Belt States: Michigan, Ohio, Indiana, Wisconsin, Minnesota, Kentucky, Missouri, Iowa, and Nebraska. We have approximately 2,000 farmer dealers who sell between $20 to $25 million of hybrid seed corn to 30,000 customers.

Our company plays a vital part in the Kentland community, a town of 1,800 people. We employ approximately 100 full-time and 900 part-time people, with a payroll of $4 million. We are a mainstay for the financial viability for this rural town. In the seed industry, we have the reputation for having high quality products and as being very responsive to the farmer's needs. It is fair to say we fill an important role in the hybrid seed corn industry and in the community of Kentland, Ind.

We are in agreement with the ASTA's official position of supporting the PIK program. The problem of surplus corn is placing extreme pressures on prices and the ability for the American farmer to grow crops at a profit. Assisting the American farmer in the short run will have a very positive impact for the world food supply in the future, and it is crucial for agribusiness suppliers to have the farmer survive in these critical times.

The extent of the PIK program, however, has caused extreme financial hardships on certain types of agribusinesses. Our company felt the direct impact of this program. The corn acreage in our marketing area was reduced by 35 percent, and in many of the counties in which we supply seed corn 45 percent of the corn acreage was taken out of production. Unlike many of the large seed companies, which there are a few in the industry, we do not have large financial reserves to fall back on, nor do we produce or market any other seed except hybrid seed corn.

The consequences of the PIK program have the effect of a double-edge sword. We have lost approximately $7 million in sales, and we had to carry an additional $4 million of inventory. These conditions have made it impossible to operate at a profit, and we had to increase our borrowing $5 million to finance operations. The interest expense just for the excess investment in inventory is $750,000.

Our company has shown consistent growth over the last 10 years to good products and sound management. However, the timing and manner in which the PIK program was announced left us defenseless. In May of 1982, we contracted with our growers and planted the crop for our 1983 inventory. We tried to anticipate the Government programs, our customers' needs, and the weather risks. These inventory decisions were finalized in May of 1982 and were irreversible.

In January 1983, Secretary of Agriculture, Mr. John Block, announced the PIK program. In our initial analysis of this program, we judged that participation could possibly be as high as 20 to 40 percent of the corn acreage. On January 10, which was about a week after the announcement, we reduced our labor force by 25 percent and curtailed capital expenditures. I have attached a newspaper article from the Lafayette Journal and Courier which reported on our situation.

In all, we made budget reductions of $1,400,000 on an annual basis and we felt our decisions were responsible and prudent. However, even with these changes, the loss in sales, the financing of excess inventory, and the additional costs of reconditioning, rebagging, and warehousing this inventory will create a substantial loss in 1983.

We now face the difficult task of producing our inventory for next year's sales without knowing the Government program for 1984. Our biggest need is cash to help finance operations while we adjust inventories and operations. Any assistance provided by the Small Business Association to help Edward J. Funk & Sons, Inc., meet its cash needs would be greatly appreciated and needed.

Thank you very much.

[The prepared statement of Mr. Crowley follows:]

SUPER CROST
SEEDS

STATEMENT BY

THOMAS F. CROWLEY, EXECUTIVE VICE PRESIDENT, EDWARD J. FUNK & SONS, INC.
KENTLAND, INDIANA
BEFORE SUBCOMMITTEE ON FAMILY FARMS
SENATE SMALL BUSINESS COMMITTEE
JUNE 9, 1983

Mr. Chairman:

I am Thomas F. Crowley, Executive Vice President of Edward J. Funk & Sons, Inc. I wish to express to you and to your committee our appreciation for this opportunity to discuss the impact of the PIK program on our company.

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We are in agreement with the ASTA's official position of supporting the PIK program. The problem of surplus corn is placing extreme pressures on prices and the ability for the American farmer to grow corn crops at a profit.

Assisting the American farmer in the short run will have a very positive impact for the world food supply in the future, and it is crucial for agribusiness suppliers to have the farmer survive in these critical times.

The extent of the PIK program, however, has caused extreme financial hardships on certain types of agribusinesses. Our company felt the direct impact of this program. The corn acreage in our marketing areas was reduced by 35% and in many of the counties in which we supply seed corn, 45% of the corn acreage was taken out of production. Unlike many of the large seed companies, we do not have large financial reserves to fall back on nor do we produce or market any other seed except hybrid seed corn.

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We now face the difficult task of producing our inventory for next year's sales without knowing the government program for 1984. Our biggest need is cash to help finance operations while we adjust inventories. Any assistance provided by the Small Business Association to help Edward J. Funk & Sons, Inc. meet its cash needs would be greatly needed and appreciated. Thank you very much.

LAFAYETTE JOURNAL AND COURIER

JANUARY 10, 1983

Funk Seeds furloughs 29

By RICK BRYANT
Staff Writer

KENTLAND — Edward J. Funk and Sons Inc., the nation's largest family-owned producer of hybrid seed corn, Monday announced the layoff of about 29 employees, or 22 percent of its workforce.

The layoffs are permanent and the result of an anticipated 20 percent decrease in demand for seed corn next summer when two federal subsidy programs to discourage farm production will take effect, said Tom Crowley, executive vice president of the firm.

Employees in the financial, sales, production and administrative departments were laid off, Crowley said.

The announcement came as a surprise to workers. Funk's is one of the town's oldest (43 years) and largest (130 employees) businesses.

"After (President) Reagan announced the second program recently, (U.S. Secretary of Agriculture John) Block said, 'the strong will survive.' We're gonna have to be strong to survive. And to be strong, we had to let some of our very, very good people go," Crowley said.

The first new federal program will provide cash payments to farmers who reduce the acreage they plant. The second program, payment in kind, will give farmers participating in the first program surplus government grain.

About 22 full-time workers lost their jobs, as did six or seven part-timers.

Crowley said laid-off personnel would continue to receive medical and life insurance benefits for "some time" plus severance pay, to be determined on an individual basis. Also, he said the company would help former employees search for jobs.

The layoffs are expected to raise Newton County's unemployment rate from about 10.7 percent to about 11.4 percent.

Senator **Pressler**. Thank you.

Did you used to market corn under the name "Funk's"? I think we used to buy it.

Mr. **Crowley**. Super Crost. There are two Funks in the industry.

Senator **Pressler**. I see.

Mr. **Crowley**. I hope it was our seed, however.

Senator **Pressler**. OK. Great.

Mr. **Crowley**. May I point out just two things? For the seed industry, even an announcement now is too late because we have had to plant our crop for next year. Whatever they announce this year, we have already had to anticipate or guess what that would be.

Senator **Pressler**. What have you guessed?

Mr. **Crowley**. We have guessed that in 1982 the corn acreage was 82 million acres, this year it was 58, and we anticipate next year it will be somewhere between 70 and 75 million acres, that there will be a reduction of about 12 percent in the acreage next year. That was just our best guess, based on what reserves were at the beginning of 1982, where they hope to bring them down to, and where we thought an acceptable level would be this year.

We were trying to play Government here, but I do not know how accurately.

Second, it is not just cash needs to finance operations, but our losses this year are losses that cannot be made up. It will take us 5 to 6 years to try to adjust our financial operations for the $1½ or $2 million of losses that we will have.

To receive cash help or a loan, the loan that I have seen in committee was something like $500,000 at 8 percent. It is a gesture, but we could borrow money at 12 percent. There is a difference of 4 percent on one-half million dollars, which is about $20,000 a year; after tax, $10,000. That is really not, for our situation, much help at all, if any.

If there were help coming, which we would appreciate, we would hope that the levels of the amount of borrowing would be closer to $4 or $5 million and the interest payment or interest charges would be closer to 4 percent, rather than 8 percent, to help us at all in our situation.

Thank you.

Senator **Pressler**. Mr. Lambert?

STATEMENT OF DAVID R. LAMBERT, ASSISTANT TO THE EXECUTIVE VICE PRESIDENT FOR LEGISLATIVE AND REGULATORY AFFAIRS, AMERICAN SEED TRADE ASSOCIATION, WASHINGTON, D.C.

Mr. **Lambert**. Mr. Chairman, I am David Lambert, representing the National Seed Trade Association. I will not try to duplicate what others have said and what Tom Crowley said about the seed industry.

The seed industry from the beginning, both large companies and small, has endorsed the PIK program. We were surprised, like everybody else, with the extent of participation by farmers in the program.

Our large companies with larger markets and wider geographical spread and diversity of crops, have been far better able to withstand the impact of PIK as opposed to our smaller and medium-sized companies.

As was pointed out, the leadtime is anywhere from a year or a year and a half to even 2 years in producing seed. The corn that will be harvested for seed has already gone into the ground for next year's season. The same thing is basically true of forage seed.

We are concentrating our testimony on corn for several reasons. One, it takes more to produce hybrid seed corn than most other seed crops. It involves rouging and detasseling. Other seed generally can be sold as a commodity because the price differential is much closer than it is with seed corn. Our basic problems lie with the seed corn industry.

USDA, in its initial projection, stated that there would probably be a 10-percent reduction in seed sales. Dawson Ahalt changed that somewhat this morning, admitting that probably there was about a 27-percent reduction in seed corn sales. Our figures would place it somewhere in the mid-thirties and, as Tom has said, his companys reduction in gross sales is at the 50 percent level. Ken Hilbert from Cow Bell Seeds is in the audience. His sales are roughly down 50 percent. For your smaller companies, that is probably closer to a truer figure.

We have approximately 200 companies in the association that produce seed corn. Eleven of those companies have gross sales of $25 million or more. Thirty-one companies have gross sales of $4 to $25 million, and that is about where Edward J. Funk would fall. The majority of our companies have less than $4 million in gross sales, which makes them fairly small operations.

Seed corn companies operate differently from each other. They have different requirements. Some companies buy from foundation seed associations; others produce their own seed. There are different costs involved, so every company has a different problem.

USDA, in their projections, of 10 percent, was speaking in terms of averages. They were including—for the loss of corn sales, the increase in forage crops to take care of the conservation acres. Unfortunately, the people that produce forage seed do not normally produce corn seed. Our forage seed producers are on the west coast; corn producers in the Midwest. Plus, before the PIK program was announced, most seed producers had already sold their seed and it was in the pipeline. Therefore, any increase in the sales of forage seed or increase in prices in forage seed did not come back to the producers of seed.

Most of the seed that was sold or is being sold for conservation acreage came from Canada, not from the United States. The seed that is going on to these conservation acres is of a lower quality, and even though seed companies did have quality forage seed, it was not the type of seed that farmers wanted on these conservation acres.

As far as 1984 is concerned, I think Tom pointed out the guesswork that was involved. Both corn seed and forage seed, for all intents and purposes, have already been planted. If a PIK program were announced right now, it would not affect the seed industry.

As far as Government loan programs are concerned, very few seed companies qualify for a farm operating loan. The business and industrial loans in the Department of Agriculture are guaranteed loans. This is not the problem, as Tom pointed out. It is a cash flow problem. They can get the money, although certain bankers are getting a little skiddish. It is not the need for a guarantee; it is the need for better loan provisions.

As Tom pointed out, what was done in the House Small Business Committee is certainly a step in the right direction, but it will only benefit the very smallest of companies. It has to be a larger program. It has to have a higher loan level, getting up to several million dollars, and if at all possible in the current environment, at a lower interest rate.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lambert follows:]

AMERICAN SEED TRADE ASSOCIATION, INC.
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STATEMENT OF DAVID R. LAMBERT, ASSISTANT TO THE EXECUTIVE VICE PRESIDENT FOR LEGISLATIVE & REGULATORY AFFAIRS, AMERICAN SEED TRADE ASSOCIATION BEFORE THE SUBCOMMITTEE ON FAMILY FARMS, SENATE SMALL BUSINESS COMMITTEE - APRIL 9, 1983

Mr. Chairman, I am David Lambert, Assistant to the Executive Vice President for Legislative and Regulatory Affairs of the American Seed Trade Association (ASTA).

Our Association represents over 600 firms engaged in the production and marketing of seed. In June of this year, we will celebrate the 100th anniversary of our Association.

Shortly after the Payment-in-Kind (PIK) Program was announced by the Secretary of Agriculture, the ASTA Board of Directors voted to give unqualified support to the program. A letter was sent to the Secretary on February 25, 1983, by William T. Schapaugh, President of ASTA, stating that "our Association recognizes the need and the benefit [of the PIK Program] to American farmers to better balance supplies with demand, and we applaud your efforts to restore economic vitality to American agriculture."

Many of our member firms unilaterally took similar positions. In a cover letter to managers and administrators of his firm, the President of one member company made the following statement: "As you can see from the statement, [we] recognize the negative impact of these programs on the farm supply sector for the short term. However, we know that the long-term health of our business depends upon a solid and productive agricultural industry . . . and that what's good for farmers is good for [our company]."

This pattern of support has held true for small companies as well as large ones.

However, the extent of farmer participation was a suprise to everyone. The larger seed companies--because of market share, diversity of crops and the ability to spread seed production over a wide geographic area--have been best able to adjust to PIK. Without the advantage of size, crop diversity and broad markets, the smaller companies are being faced with real financial problems as a direct result of the program.

Due to the long-term nature of seed production, the sequence of events which creates the current cashflow problem of many seed producers began more than a year ago. Long before the PIK Program was even being considered, seed companies had to determine how much seed to produce to meet what was reasonably anticipated to be probable demand for 1983.

Seed companies generally contract for production with farmer-growers. Parent seed is furnished the farmer-grower and the crop is monitored throughout the growing and harvest season. It is this effort which makes the difference between growing the crop for seed or as a commodity. In the case of hybrid corn, major expenditures are made for detasseling and rouging. The seed is then conditioned, bagged and held in inventory to be sold the following planting season. The 'overhead' money which a seedsman needs to produce, condition and hold seed in inventory until it is marketed the following Spring is borrowed from local banks--and the high cost of money was already a major problem for most seedsmen prior to any mention of a PIK Program.

Seed production fields for corn to plant for the 1983 crop year were planted in the Spring and harvested in the Fall of 1982. Seedsmen, who had no reason to assume it might be otherwise, produced for a normal year and now find corn planting substantially reduced because of the program. This leaves them with much-larger-than-usual inventories, which they must carry for another year at high interest costs.

This discussion deals primarily with the problems facing producers of hybrid corn and sorghum rather than other crops covered by the PIK Program. This is due to the fact that many of these other crops, such as wheat, can be sold as a commodity with much less loss to the producer if it cannot be sold for planting seed.

There are approximately 200 companies in our Association that produce hybrid seed corn or hybrid sorghum. Eleven of these have over $25 million in gross sales, 31 have $4-$25 million--but the vast majority have less than $4 million in gross sales. It is these small companies which have been hardest hit by the market dislocation caused by the PIK Program.

We have taken issue with figures published by the U.S. Department of Agriculture (USDA) indicating that the PIK Program will have a net reduction and effect on the seed industry in the range of 10 percent. The "average" figure may be correct but the problem is that, due to the characteristics of the seed industry, the average is determined by adding apples and watermelons. Reductions in sale of seed for program crops is in direct proportion to acreage production--which means that producers of hybrid corn and sorghum are experiencing reductions in sales well above 30 percent.

The USDA figure is the result of averaging the value of increased sales of soil conserving crops with reductions in sale of seed of program crops. This is the basis for the comment that the average is the result of adding apples and watermelons. The USDA has reported that increased sales of forage seed has tended to compensate seed companies for the loss of sales of crops covered by the program. However, with the exception of a handful of major firms, most seed corn companies produce and sell nothing but corn. Conservation crop seed are produced primarily by companies in the Far West which specialize in grass and forage seed.

The large acreage required to be planted in conservation crops in 1983 has naturally caused, in our free market system, price increases for such seed. Although the demand and price for forage seed for conservation acreage have increased dramatically, little, if any, of the benefits have accrued to most producers of program crops--in fact, many U.S. forage seed producers have no benefitted significantly from this market change. Prior to the announcement of PIK, many forage seed producers had sold most of their crop and it was in the pipeline to traditional customers at normal prices. Overall benefit to U.S. producers has been in the reduction in excess inventory, which resulted from the excellent production of some forage crops in 1982.

Major beneficiaries of the program and the demand for conservation crop seed have been Canadian seedsmen. Most of the increased demand is being satisfied from Canadian sources and imports of such seed into the U.S. from Canada have probably been the largest in history.

In the absense of information on whether or not there will be a PIK Program in 1984, U.S. seedsmen producing seed of program crops as well as conservation crops both face the same dilemma as it relates to seed for the 1984 crop. For corn and sorghum seed producers, the only alternative to the possibility of having a burdensome surplus of seed for which there may be no market is to produce on the assumption that there will be a PIK Program and 1984 sales will be comparable to 1983; while forage seed producers, to avoid the same possibility, must assume there will not be a PIK Program and 1984 sales will be normal rather than continuing at 1983 levels. In any event, the adverse effects of this situation will be felt by U.S. farmers in purchase of planing seed for 1984.

Based on requests from a number of our smaller member firms, we met with the Farmers Home Administration in an attempt to find ways to assist these seed companies through this year. The FmHA Business and Industry Loan Program offers guaranteed loans, but at the market rate --and it is the cost of loans, not the availability of money, which is the problem. We also have had discussions with the Small Business Administration, but these have not had positive results since the SBA low-interest loan programs have been eliminated. As a direct result of the PIK program, many otherwise well-managed seed companies--particularly the smaller hybrid corn companies--are in great need of assistance to solve the cashflow problem created by having to carry inventories in which investment is in excess of a normal year's profits.

We appreciate the opportunity to present these views.

Senator **Pressler**. So the message from this panel is the same, that we are slowing down employment and business activity in your sector? Are there any sectors that you know of in the agribusiness world that are being helped by the PIK program because of more money in the short run?

Mr. **Crowley**. I think all the businesses will be helped in the long run. I think our business will be helped because our farmer, our customer, will be able to make it.

As a company—and I think all the ag suppliers—we are willing to participate in changing the environment. For the seed industry, if it were 10 to 15 percent, as it has affected other industries, we were prepared to absorb that shock. With no disrespect for any other ag supplier, though, in hybrid seed corn we were affected 30 to 40 percent, which I think is somewhat of an undue burden for the program. I think we all would like to contribute and say, "Hey, let's take a longer term." There is going to be another year besides 1983, so let's see what is going to be good in 1990.

However, for our industry, it is severe.

Senator **Pressler**. The idea of preserving the family farmer, preserving the agricultural sector, if PIK does that, in the long run it will be to your advantage. In the short run you are hurt.

It has been expressed here so eloquently about the situation we are getting ourselves into in regard to exports with some of our European competitors, Argentina, Canada, and Australia. It is not just the Government, although the Government certainly could do a great deal more. There are a lot of people in this country who are opposed to exporting grain, believe it or not. A lot of people think the domestic food supply will be more expensive. Every time we make major grain sales abroad, there are protests from some consumer group. If we sell grain to the Soviet Union, there are sharp protests. There are a lot of members of the Senate who are absolutely opposed to selling grain to the Soviet Union.

There are labor unions that will not load ships to certain countries.

We are a country that is not very aggressive about exporting grain. It is not just agriculture that is affected if we do not export grain; it is the agribusiness industries first, and then others businesses down the road. I think that is a theme that we need to get across to our friends in great urban areas and to those who are so hesitant about sending food stuffs outside the United States. I can see their point of view to a certain extent, but I do not think there is much relationship between farm prices and food prices. However, there is great resistance to long-term grain agreements or long-term commitments to send food outside the United States.

I think this hearing has highlighted that not just farmers will benefit, there is going to be employment affected, there is going to be profits affected, there is going to be small businesses and big businesses affected. At the same time, we are trying to provide more employment, we are passing jobs bills, we are searching for solutions to deficits, inflation and balance-of-payments problems.

I think the message that has been brought here is a very good one. I want to highlight the fact that there are enormous spinoff benefits if we increase our exports of grain.

The PIK program is popular. I am for it. Under the circumstances, it is the best thing that we can do. However, not to produce on a permanent basis will affect not only agriculture, but it will affect many businesses, many Main Street businesses.

Your testimony has provided eloquent examples of that. I think we have pretty much covered the ground, unless any of you have a thoughtful closing remark.

Mr. CROWLEY. To your question, I would rather Edward J. Funk & Sons experienced a 30-percent loss in sales than to have us experience 30 percent of our farmers going out of business.

Senator PRESSLER. Very perceptive.

Mr. CROWLEY. How do we view the program? I would rather we take that burden right now and keep 100 percent of our farmers there. You asked who was helped. For agribusiness, our customers are helped. We are appreciative of that.

Senator PRESSLER. Great. I think that is very perceptive. That is true. I agree with that.

The main thing that has come from this hearing, to my mind, so far is the critical damage that will be done to our economy if we do not get much more organized and aggressive about moving our grain out and exporting it. Sure, you are willing to take a cut for 2 or 3 years in the hope of preserving the basic family farmer and preserving the basic industry. However, if it were to continue for 10 years, then you would have a multiplied problem.

In any event, I thank this panel very much for being here. I want to thank all of our witnesses. I think we have had some excellent witnesses today.

The testimony will be read and distributed, and we will go forward.

Thank you very much.

This concludes the hearing.

[Whereupon, at 12:34 p.m., the committee adjourned.]

APPENDIX

South Dakota
FERTILIZER and AG CHEMICAL
Association

121 North Grand
Pierre, South Dakota 57501
Phone: 605-224-2445

STATEMENT BY:

BOARD OF DIRECTORS OF THE SOUTH DAKOTA FERTILIZER & AG CHEMICAL ASSOCIATION

BEFORE SUBCOMMITTEE ON THE FAMILY FARM SENATE SMALL BUSINESS COMMITTEE

JUNE 9, 1983

The South Dakota Fertilizer and Ag Chemical Association is a trade organization representing fertilizer and ag chemical retailers, distributors, and manufacturers in South Dakota. Our membership consists of approximately 215 retailers and 110 distributor and manufacturer representatives.

We are responding to the USDA report entitled "An initial assessment of the Payment-In-Kind Program", and specifically Section Four relating to PIK on agricultural support industries. The reduction of acres planted has had a definite negative effect on sales of fertilizer and agricultural chemicals. The state of South Dakota has two different agricultural regions, one being row crops (corn and soybeans) and the other small grains (wheat, oats, barley). The effect of PIK on ag support industries varies between these two areas; however, we estimate a 28% average statewide reduction in fertilizer sales. Based on 1982 sales of 435,000 tons and an average gross margin of $30.00 per ton, a loss of over $13 million has been incurred by retailers alone. In addition, ag chemical sales are projected to be down

$30 million with a resultant loss of gross margin income of $3 million plus an additional loss of service income of $5 million.

While the above mentioned are the obvious negative results, there are many more underlying effects. These include such things as loss of jobs and increased bankruptcies in the ag support industries, loss of tax revenue, deterioration of asset value, to name just a few.

Our recommendation to this subcommittee would be that the answer to the dilema of the American farmer lies not in farm subsidies but in expanded markets for farm products. If farmers are allowed to produce to their fullest potential and sell their products at a fair profit, the problems of the ag support industries will be alleviated. We further recommend that any future farm support programs be announced by July 15 of the year preceding. Time is needed by the support industries to properly plan production schedules and inventory.

We appreciate this opportunity to make these comments to this subcommittee.

June 3, 1983

Senator Sam Nunn
SD 335 Dirksen Senate Office Bldg.
Washington, D. C. 20510

Dear Senator:

PM 12: 11

I understand the Senate Small Business-Family Farm Subcommittee is holding a hearing Thursday June 9 concerning the impact of the USDA PIK program on agricultural support businesses. Among the witnesses are to be a representative of the American Seed Trade Association and a representative from a good Indiana seed company.

I would like to add to their testimony. It is good that our government cares enough about farm people to help them with the PIK program and it is unfortunate so many good people have been hurt so seriously by PIK's unintended side effects. 1983 seed corn costs were almost totally committed before PIK was put into effect and seed corn company income is being reduced by practically the same % as the total corn acreage is being reduced. If the corn acreage is reduced by 1/3, then seed corn receipts will be reduced by 1/3 + or- an individuals company variation due to geographical participation, area weather, supplier rank with customer and misc. factors. So some companies may not be hurt greatly and other companies could be put out of business by the negative impacts of the PIK program.

Some people have thought the main negative impact of the PIK program on the hybrid seed corn companies was principally that merely of cash flow timing which many companies could handle in stride with other enterprise income or past accumulated profits, and so needed little or no government help. Other people have studied the matter carefully and learned that the cash flow timing was only a small part of the total problem. The much larger problems come into being with the huge losses caused by the PIK program reducing gross income far below the break even point. Then dealing with creditors become very serious problems. Yesterday afternoon I spoke with a wholesale hybrid seed corn producer who had just talked with his principal wholesale customer who can not make payment because the PIK program had reduced the retail sales so severely. This puts both companies in jeopardy. In trying to cope with a reduced seed corn demand, seed corn companies have drastically reduced 1983 seed acreage to cut expenses and in so doing have drastically cut the incomes of the foundation seed support companies. These companies are vital to our food chain and should not be driven out of business because of a government program.

There are over 200 seed corn companies in the U. S. with a small number of companies selling over 2/3 of the seed corn and perhaps 200 companies sharing the remaining 1/3 of the market. While no doubt the large companies will be impacted most in total dollars, probably the smaller companies will be impacted the most with survival threatening losses. Some of the larger companies are owned by large corporations who have a number of larger more profitable enterprises to keep them going during and following the 1983 loss year in the seed corn operations. Some smaller companies also have alternate incomes that will help them survive. However those companies largely dependent upon their seed corn enterprise and with large enough financial reserves are most vulnerable and are seriously threatened. If quite a number of these companies are put out of business by the PIK program and its after effects, the market share of the big companies will get even bigger. As the number of seed companies would tend to decline, it is likely the price of seed corn to the farm customers would rise. I believe it is in the best interest of farmers and consumers for the smaller seed corn companies to survive and not be put out of business even unintentionally by the Government.

To my knowledge no one has made a thorough study of the impact of the PIK program on hybrid seed corn companies or asked for the suggestions and recommendations of the seedsmen involved as to the best ways for the PIK related problems to be solved. Several seedsmen I've talked to have been afraid to communicate their problems, their viewpoints, their needs or their suggestions to other seedsmen. They have even been afraid of any group effort to get such knowledge to the American Seed Trade Association or to people in government. Part of the fear stems from fear of adverse publicity, part from fear of being looked down upon as a degraded, unsuccessful manager, part from fear of being ostracized, part from fear of retaliation from people who may not want to see government aid given to wounded seedsmen.

Seedsmen such as I often come from farms that have been in the family over a century and would rather take a whipping than ask for government help, but when we are faced with overwheming problems that have been brought about by government action that really gets our feelings all crossed up. We have this huge and threatening situation with no one else to turn to for help in protecting us against our own government's action. The banks we have dealt with for many years have simply made the problems more intense and stressful-in fact I have been and continue to be under more stress now than I was as a young man flying combat missions during World War II.

As I see it, the Government needs to face up to the serious questions concerning what steps, if any, should be taken to treat people fairly who have been adversely affected by the PIK program. I strongly believe the Government should not, even unintentionally, cause citizens losses (in some cases the losses may totally destroy companies or individuals financially). House Subcommittee Skelton's proposed SBA amendment to make up to $500,000 8% 7 year loans to qualifying PIK impacted companies is appreciated and a step in a helpful direction, but it really goes only a small part of the way towards helping seriously PIK impacted seed corn companies survive. Its principal monetary value would be the difference between 8% and whatever alternative financing costs, so compared with 12% interest a saving of some $80,000 over 7 years would result. That would offset PIK sales reduction of some 1,600 units or bags of seed corn. In view of PIK having an impact of about 1/3 of 1982 or expected 1983 seed corn sales receipts, that would not make a survival difference to very many seed corn companies. Our losses may exceed $500,000.00.

I believe it would only be fair treatment for the Government to be fully responsible for whatever losses are caused ag support companies by the PIK program. Of couse that would mean another large government expenditure for which the government would get nothing short term but it would preserve thousands of people in the ag support business as taxpayers and government supporters, whereas doing nothing or too little or too late would make thousands more tax dependents and people whose faith in fair treatment by government being shattered. Ag support people have witnessed other groups financially protected by Goverment dollars from heavy losses caused by factors other than Government action. For instance right now I am thinking about money paid into IMF for foreign borrowers to pay U.S. bankers and there are many other examples. I've heard of cost overruns allowed defense contractors, so one way to look at loss reimbursement for PIK impacted ag suppliers would be to consider such payments as cost overruns for the PIK program. Perhaps not planned or desirable from the Government point of view, but just a necessary cost in treating people fairly in getting the job done that the Government set out to do.

If total loss reimbursement of PIK impacted ag suppliers is not possible or practical, then a minimum goal of partial loss reimbursement coupled with a sufficient and timely disaster loan program designed to prevent any Ag supplier from being forced out of business should be implemented.

One way to do that would be to make a sufficiently large loan at a token rate of interest for enough years to offset the PIK losses. Perhaps it would help on cash flow merely to use loan guarantees from private lenders then the cost would be that of the interest difference spread over the years of the loans.

I feel confident that you Folks in Government will do your best to treat everybody fairly and I sure can't ask for any more than that but I do respectfully ask for your careful consideration and timely action on our PIK impacted problems before the bankers come down on us irrevocably.

Thank you for your attention. Your caring is appreciated.

Sincerely yours,
Robert S. Davis
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